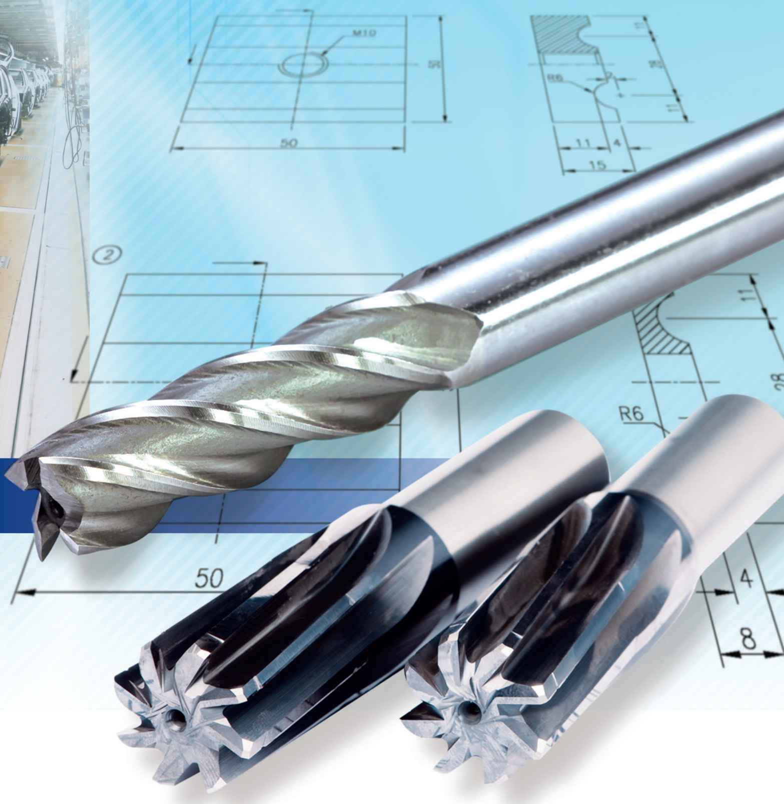

Interim Report 2013

天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

* For identification purpose only

Contents

Corporate Information

Registered Name
Tiangong International Company Limited

Chinese Name
天工國際有限公司

Stock Code
Hong Kong Stock Exchange 826

Board Of Directors
Executive Directors
Mr. Zhu Xiaokun *(Chairman)*
Mr. 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. Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

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

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

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

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

Principal Share Registrar and Transfer Office
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, Cayman Islands

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

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

Business and Market Review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

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

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

Forward Looking Statements

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

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

Financial review

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

Revenue

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

Cost of sales

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

Gross margin

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

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

HSS

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

HSS cutting tools

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

Die steel

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

Titanium alloy

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

Other income

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

Distribution expenses

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

Administrative expenses

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

Net finance cost

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

Income tax expense

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

Profit for the period

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

Profit attributable to equity shareholders of the Company

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

Liquidity and Financial Resources

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

Capital Expenditures and Capital Commitments

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

Foreign Exchange Exposure

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

Pledge of Assets

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

Employee's Remuneration and Training

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

Contingent Liabilities

On 21 June 2013, TG Tools has issued a guarantee to a bank in respect of a bank facility granted to TGT which expires on 21 June 2014. As at the reporting period, the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the reporting date under the guarantee issued is the outstanding amount of the facility drawn down by TGT of USD2,000,000 (equivalent to RMB12,357,000) (2012: RMB15,049,000). Bank deposits USD2,000,000 (equivalent to RMB12,357,000) (2012: RMB11,500,000) was pledged for the bank facility granted to TGT.

Report of the Directors

The Board is pleased to submit the interim report together with the consolidated financial statements for the six months ended 30 June 2013 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 2012).

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

As at 30 June 2013, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun[1 and 2]	Corporate interests	783,086,000 (L)	40.34
	Beneficial owner[3]	400,000 (L)	0.02
			40.36
Mr. Wu Suojun	Beneficial owner[3]	400,000 (L)	0.02
Mr. Yan Ronghua	Beneficial owner[3]	320,000 (L)	0.02
Mr. Jiang Guangqing	Beneficial owner[3]	400,000 (L)	0.02

Notes:

As at 30 June 2013,

(1) Tiangong Holdings Company Limited ("THCL") held 742,354,000 Ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 742,354,000 Shares held by THCL.

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 40,732,000 Ordinary shares.

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

(L) Represents long position.

(b) Interests in the shares of associated corporation

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

(L) Represents long position.

Save as disclosed above, as at the 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 2013, 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)	783,486,000 (L)	40.36
THCL (Note 1)	742,354,000 (L)	38.24
The Capital Group Companies, Inc. (Note 2)	138,406,000 (L)	7.13
Delta Lloyd Asset Management NV (Note 3)	118,053,800 (L)	6.08
Allianz SE (Note 4)	117,371,000 (L)	6.05

Note:

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

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

(3) 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 84.82% controlled by it.

(4) Allianz SE reported that it is deemed to be interested in the shares of the Company by virtue of its interest in a few corporations 100% controlled by it.

Share Option Scheme

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

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

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

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

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

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

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

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

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

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

At 30 June 2013, 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 2013 was HKD1.92) under the Scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of USD0.0025 each of the Company.

	No. of options outstanding at the beginning of the year	No. of options granted during the period	No. of shares acquired on exercise of options during the period	No. of shares forfeited during the 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	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Mr. Yan Ronghua	320,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Mr. Wu Suojun	400,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Mr. Jiang Guangqing	400,000	–	–	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	–
Employees	17,760,000	–	(10,160,000)	–	28 January 2011	01 July 2012-30 June 2016	HKD1.275	HKD1.275	HKD2.20

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

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

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

Purchase, Sales or Redemption of Shares

Save as disclosed in this interim report, during the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

Corporate Governance Practice

During the period from 1 January 2013 till 30 June 2013, the Company has applied the principles of and has complied with all code provisions of the Code on Corporate Governance Practices as set forth in Appendix 14 of the Listing Rules and there has been no deviation from the code provisions as set forth and on the Old Code and the New Code for the six months ended 30 June 2013.

Audit Committee

The Audit Committee comprises three independent non-executive directors. Mr. Lee Cheuk Yin, Dannis, being independent non-executive Directors of the Company, has extensive experiences in financial and economic management, as well as appropriate professional qualifications as stipulated by Rule 3.10(2) of the Hong Kong Listing Rules. The Audit Committee held a meeting on 22 August 2013 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 2013 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

23 August 2013

TO THE BOARD OF DIRECTORS OF
TIANGONG INTERNATIONAL COMPANY LIMITED
For the six months ended 30 June 2013
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 14 to 38 which comprises the consolidated statement of financial position of Tiangong International Company Limited as at 30 June 2013 and the related consolidated statement of profit or 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 2013 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

23 August 2013

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013 (unaudited)

		Six months ended 30 June	
		2013	2012
	Note	**RMB'000**	RMB'000
Revenue	3	**1,652,105**	1,727,010
Cost of sales		**(1,213,491)**	(1,347,266)
Gross profit		**438,614**	379,744
Other income	5	**36,442**	13,504
Distribution expenses		**(25,277)**	(22,286)
Administrative expenses		**(50,984)**	(51,173)
Other expenses	6	**(21,274)**	(13,018)
Profit from operations		**377,521**	306,771
Finance income		**2,137**	6,316
Finance expenses		**(63,023)**	(58,081)
Net finance costs	7(a)	**(60,886)**	(51,765)
Share of (losses)/profits of associates	12	**(907)**	561
Share of profits/(losses) of joint venture	13	**6,306**	(1,099)
Profit before income tax	7	**322,034**	254,468
Income tax expense	8	**(75,773)**	(41,487)
Profit for the period		**246,261**	212,981
Attributable to:			
Equity shareholders of the Company		**245,807**	212,981
Non-controlling interests		**454**	—
Profit for the period		**246,261**	212,981

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013 (unaudited)

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Profit for the period		**246,261**	212,981
Other comprehensive income for the period			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences			
— equity-accounted investees		**(2,245)**	265
Total comprehensive income for the period		**244,016**	213,246
Attributable to:			
Equity shareholders of the Company		**243,562**	213,246
Non-controlling interests		**454**	—
Total comprehensive income for the period		**244,016**	213,246
Earnings per share (RMB)	9		
Basic		**0.127**	0.122
Diluted		**0.126**	0.119

The notes on pages 20 to 38 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 20(a).

Consolidated Statement of Financial Position

As at 30 June 2013 (unaudited)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment	10	**2,281,736**	2,143,725
Lease prepayments		**70,181**	70,972
Goodwill		**22,086**	21,959
Interest in associates	12	**41,707**	43,647
Interest in joint ventures	13	**11,731**	6,637
Other financial assets		**10,000**	10,000
Deferred tax assets		**14,888**	12,336
		2,452,329	2,309,276
Current assets			
Inventories	14	**1,820,351**	1,426,003
Trade and other receivables	15	**1,704,059**	1,530,598
Pledged deposits	16	**215,202**	238,479
Time deposits		**529,000**	446,000
Cash and cash equivalents	17	**279,798**	150,499
		4,548,410	3,791,579
Current liabilities			
Interest-bearing borrowings	18	**2,320,082**	1,886,407
Trade and other payables	19	**1,384,062**	1,147,200
Current taxation		**50,663**	43,578
Deferred income		**1,162**	1,162
		3,755,969	3,078,347
Net current assets		**792,441**	713,232
Total assets less current liabilities		**3,244,770**	3,022,508
Non-current liabilities			
Interest-bearing borrowings	18	**263,968**	201,638
Deferred income		**4,285**	4,866
Deferred tax liabilities		**22,103**	28,721
		290,356	235,225
Net assets		**2,954,414**	2,787,283

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

Approved and authorised for issue by the board of directors on 23 August 2013.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

The notes on pages 20 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013 (unaudited)

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling Interests RMB'000	Total Equity RMB'000
Balance at 1 January 2012	31,806	886,566	100,655	91,925	(3,715)	235,312	796,768	2,139,317	–	2,139,317
Changes in equity for the six months ended 30 June 2012										
Profit for the period	–	–	–	–	–	–	212,981	212,981	–	212,981
Other comprehensive income	–	–	–	–	265	–	–	265	–	265
Total comprehensive income	–	–	–	–	265	–	212,981	213,246	–	213,246
Issuance of ordinary shares	1,976	180,507	–	–	–	–	–	182,483	–	182,483
Exercise of warrants	759	52,237	(13,946)	–	–	–	–	39,050	–	39,050
Dividends approved in respect of previous year (Note 20(a))	–	–	–	–	–	–	(80,544)	(80,544)	–	(80,544)
Equity settled share-based transactions	–	–	3,609	–	–	–	–	3,609	–	3,609
Balance at 30 June 2012 and 1 July 2012	34,541	1,119,310	90,318	91,925	(3,450)	235,312	929,205	2,497,161	–	2,497,161
Changes in equity for the six months ended 31 December 2012										
Profit for the period	–	–	–	–	–	–	231,911	231,911	–	231,911
Other comprehensive income	–	–	–	–	412	–	–	412	–	412
Total comprehensive income	–	–	–	–	412	–	231,911	232,323	–	232,323
Dividends approved in respect of previous year (Note 20(a))	–	–	–	–	–	–	(7,392)	(7,392)	–	(7,392)
Exercise of warrants	1,262	87,171	(23,242)	–	–	–	–	65,191	–	65,191
Transfer to reserve	–	–	–	–	–	86,186	(86,186)	–	–	–
Balance at 31 December 2012	35,803	1,206,481	67,076	91,925	(3,038)	321,498	1,067,538	2,787,283	–	2,787,283
Balance at 1 January 2013	**35,803**	**1,206,481**	**67,076**	**91,925**	**(3,038)**	**321,498**	**1,067,538**	**2,787,283**	**–**	**2,787,283**
Changes in equity for the six months ended 30 June 2013										
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**245,807**	**245,807**	**454**	**246,261**
Other comprehensive income	**–**	**–**	**–**	**–**	**(2,245)**	**–**	**–**	**(2,245)**	**–**	**(2,245)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(2,245)**	**–**	**245,807**	**243,562**	**454**	**244,016**
Dividends approved in respect of previous year (Note 20(a))	**–**	**–**	**–**	**–**	**–**	**–**	**(89,488)**	**(89,488)**	**–**	**(89,488)**
Exercise of share options (Note 20(b))	**159**	**15,515**	**(5,311)**	**–**	**–**	**–**	**–**	**10,363**	**–**	**10,363**
Acquisition of subsidiary (Note 4)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,240**	**2,240**
Balance at 30 June 2013	**35,962**	**1,221,996**	**61,765**	**91,925**	**(5,283)**	**321,498**	**1,223,857**	**2,951,720**	**2,694**	**2,954,414**

The notes on pages 20 to 38 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2013 (unaudited)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Cash (used in)/generated from operations	**(12,611)**	304,837
Tax paid	**(77,736)**	(34,872)
Net cash (used in)/generated from operating activities	**(90,347)**	269,965
Net cash used in investing activities	**(258,778)**	(348,416)
Net cash generated from financing activities	**478,424**	224,470
Net increase in cash and cash equivalents	**129,299**	146,019
Cash and cash equivalents at 1 January	**150,499**	103,089
Cash and cash equivalents at 30 June	**279,798**	249,108

The notes on pages 20 to 38 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 23 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2013 annual financial statements. Details of these changes and adoptions of accounting policies are set out in Note 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 report amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

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

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

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

2. Changes in accounting policies

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

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

2. Changes in accounting policies (Continued)

- *Annual Improvements to IFRSs 2009–2011 Cycle*

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

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

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

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

IFRS 10, Consolidated financial statements

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

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

IFRS 11, Joint arrangements

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

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

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

2. Changes in accounting policies (Continued)

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The group has provided those disclosures in note 22. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009–2011 Cycle

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

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

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

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

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

—	*High speed steel ("HSS")*	The HSS segment manufactures and sells high speed steel for the steel industry.
—	*HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.
—	*Die steel ("DS")*	The DS segment manufactures and sells die steel for the steel industry.
—	*Trading of goods*	The trading of goods segment sells aluminium, silicon iron, billet steel and chemical goods (purified terepthatic acid).
—	*Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.

3. Revenue and segment reporting (Continued)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Chairman (the chief operating decision maker) monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other investments, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other corporate assets. Segment liabilities include trade and bills payable, non-trade payables and accrued expenses attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance costs. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and joint ventures and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings used by the segments in their operations.

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

3. Revenue and segment reporting (Continued)

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

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

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

	As at 31 December 2012					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Trading of goods RMB'000	Titanium alloy RMB'000	Total RMB'000
Reportable segment assets	1,684,968	805,351	2,427,432	90,113	144,000	5,151,864
Reportable segment liabilities	396,387	179,036	519,991	27,913	13,692	1,137,019

3. Revenue and segment reporting (Continued)

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

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

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

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

3. Revenue and segment reporting (Continued)

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

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

(c) Geographical information

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

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

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

4. Business combination

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

4. Business combination (Continued)

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

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

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

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

5. Other income

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

5. Other income (Continued)

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

6. Other expenses

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

7. Profit before income tax

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

(a) Net finance costs

		Six months ended 30 June	
		2013	2012
	Note	**RMB'000**	RMB'000
Interest income		**(2,137)**	(6,316)
Finance income		**(2,137)**	(6,316)
Interest on bank loans		**74,524**	71,389
Less: interest expense capitalised into property, plant and equipment under construction	10	**(11,501)**	(13,308)
Finance expenses		**63,023**	58,081
Net finance costs		**60,886**	51,765

7. Profit before income tax (Continued)

(b) Other items

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Cost of inventories*		**1,213,491**	1,347,266
Depreciation		**63,933**	61,135
Amortisation of lease prepayments		**791**	791
(Reversal)/Provision for write-down of inventories	14	**(11,756)**	2,359

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

8. Income tax expense

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

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

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

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

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

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

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB245,807,000 (six months ended 30 June 2012: RMB212,981,000) and the weighted average number of potential ordinary shares of 1,944,835,296 (six months ended 30 June 2012: 1,791,814,846) for the six months ended 30 June 2013 after taking into account the potential dilutive effect of the share options.

10. Property, plant and equipment

During the six months ended 30 June 2013, the Group acquired items of plant and machinery with a cost of RMB191,598,000 (six months ended 30 June 2012: RMB223,842,000), excluding capitalised borrowing costs of RMB11,501,000 (six months ended 30 June 2012: RMB13,308,000). Items of machinery and motor vehicles with a net book value of RMB1,155,000 were disposed of during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB415,000), resulting in a net loss on disposal of RMB956,000 (six months ended 30 June 2012: RMB72,000).

11. Interests in subsidiaries

Details of the subsidiaries as at 30 June 2013 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company		Issued and paid-up/ registered capital	Principal activities
		Direct	Indirect		
China Tiangong Company Limited	British Virgin Islands, 14 August 2006	100%	—	USD-/USD50,000	Investment holding
TG Tools	the PRC, 7 July 1997	—	100%	RMB1,034,300,000/ RMB1,034,300,000	Manufacture and sales of high speed steel and cutting and drilling tools, and trading of chemical goods
TG Aihe	the PRC, 5 December 2003	—	100%	RMB401,438,000/ RMB401,438,000	Manufacture and sales of die steel
Danyang Tianfa Forging Company Limited	the PRC, 11 October 2000	—	100%	USD18,600,000/ USD18,600,000	Precision forging and sales of high speed steel
China Tiangong (Hong Kong) Company Limited	Hong Kong, 13 June 2008	—	100%	HKD1/HKD1	Investment holding
Jiangsu Tiangong Titanium Technology Company Limited	the PRC, 27 January 2010	—	100%	RMB300,000,000/ RMB300,000,000	Manufacture and sales of alloy, steel, cutting and drilling tools and titanium-related products
Tiangong Development Hong Kong Company Limited	Hong Kong, 15 February 2012	—	100%	USD3,400,000/ USD5,000,000	Trading of alloy, steel, cutting and drilling tools and titanium-related products
Jiangsu Tiangong Mould Steel R&D Center Company Limited	the PRC, 5 March 2012	—	100%	RMB5,000,000/ RMB5,000,000	Research and development of alloy, steel, and titanium-related products
Changchun FAW Miracle	the PRC, 6 January 2011	—	60%	RMB3,000,000/ RMB3,000,000	Manufacture and sales of tools

12. Interest in associates

Details of the Group's interest in the associates which are all unlisted corporate entities as at 30 June 2013 are set out below:

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/registered capital	Principal activities
Jiangsu Tianrun Huafa Logistics Company Limited ("Tianrun Huafa")	the PRC, 22 April 2010	—	40%	RMB5,000,000/ RMB5,000,000	Logistics and freight
Xinzhenggong Company Limited ("XZG")	Taiwan, 3 August 2010	—	25%	TWD200,000,000/ TWD200,000,000	Sales of special steel related products
SB Specialty Metals Holdings ("SBSMH")	the United States, 6 January 2010	20%	—	USD8,250,000/ USD8,250,000	Sales of special steel related products

Summary financial information on associates:

	At 30 June 2013			Six months ended 30 June 2013	
	Assets RMB'000	**Liabilities RMB'000**	**Equity RMB'000**	**Revenues RMB'000**	**Losses RMB'000**
100 per cent	**426,125**	**(225,125)**	**201,000**	**256,798**	**(4,842)**
Group's effective interest	**87,166**	**(45,459)**	**41,707**	**55,398**	**(907)**

	At 31 December 2012			Six months ended 30 June 2012	
	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profits RMB'000
100 per cent	394,980	(188,990)	205,990	266,175	828
Group's effective interest	82,021	(38,374)	43,647	57,599	561

13. Interest in joint ventures

Details of the Group's interest in the joint ventures which are unlisted corporate entities as at 30 June 2013 are set out below.

Name of company	Place and date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/registered capital	Principal activities
TGT Special Steel Company Limited ("TGT")	the Republic of Korea, 12 January 2010	—	70%	USD1,000,000/ USD1,000,000	Sales of special steel related products
TGK Special Steel Private Limited ("TGK")	India, 5 June 2012	—	50%	USD2,000,000/ USD2,000,000	Sales of special steel related products

13. Interest in joint ventures (Continued)

Summary financial information on joint ventures — (Group's effective interest):

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Non-current assets	**2,397**	3,527
Current assets	**86,101**	70,547
Current liabilities	**(76,767)**	(67,437)
Net assets	**11,731**	6,637

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Income	**40,290**	31,606
Expenses	**(33,984)**	(32,705)
Profits/(losses) for the period	**6,306**	(1,099)

14. Inventories

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Raw materials	**78,821**	73,852
Work in progress	**817,239**	521,972
Finished goods	**924,291**	830,179
	1,820,351	1,426,003

During the six months ended 30 June 2013, the Group recognised a write-back of RMB11,756,000 (six months ended 30 June 2012: a write-down of RMB2,359,000) against those inventories with net realisable value lower than carrying value. The write-down/write-back is included in cost of sales in the consolidated statement of comprehensive income.

15. Trade and other receivables

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

Trade receivables of RMB147,568,000 (2012: RMB143,618,000) have been pledged to a bank as security for the Group to issue bank loans as disclosed in note 18.

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

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

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

16. Pledged deposits

Bank deposits of RMB215,202,000 (2012: RMB238,479,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities (as described in Note 24). 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.

17. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2013 are cash at bank and in hand.

18. Interest-bearing borrowings

	Note	**At 30 June 2013 RMB'000**	At 31 December 2012 RMB'000
Current			
Secured bank loans	(i)	**339,828**	345,703
Unsecured bank loans	(ii)	**1,491,754**	1,147,204
Current portion of non-current unsecured bank loans	(iii)	**488,500**	393,500
		2,320,082	1,886,407
Non-current			
Secured bank loans	(i)	**154,468**	157,138
Unsecured bank loans	(iii)	**598,000**	438,000
Less: Current portion of non-current unsecured bank loans	(iii)	**(488,500)**	(393,500)
		263,968	201,638
		2,584,050	2,088,045

(i) The secured bank loans were pledged by certain trade receivables at interest rates ranging from 3.51% to 3.81% per annum (2012: 3.61% to 3.91%).

(ii) Current unsecured bank loans carried interest at annual rates ranging from 0.30% to 6.72% (2012: 3.00% to 7.22%) and were all repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 4.2% to 6.15% (2012: 0.30% to 6.65%).

As at 30 June 2013, there were no unsecured bank loans with guarantee from a third-party (2012: RMB100,000,000).

18. Interest-bearing borrowings (Continued)

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

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**488,500**	393,500
After 1 year but within 2 years	**109,500**	44,500
	598,000	438,000

19. Trade and other payables

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

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

20. Capital, reserves and dividends

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

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

20. Capital, reserves and dividends (Continued)

(b) Shares issued under share option scheme

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

21. Related party transactions

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

(a) Significant related party transactions-recurring

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Lease expense to:		
Controlling shareholder's company	**500**	500
Sales of goods to:		
Associates	**25,855**	22,680
Joint ventures	**87,090**	64,845
Freight expense to:		
Associates	**19,412**	18,170
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.

(b) Amounts due from related parties

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Associates	**11,501**	13,115
Joint ventures	**116,841**	89,548
	128,342	102,663

21. Related party transactions (Continued)

(c) Amounts due to related parties

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Associates	**580**	740
Controlling shareholder's company	**500**	1,000
	1,080	1,740

22. 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 30 June 2013 and 31 December 2012.

23. Commitments

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

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Contracted for	**46,295**	135,828
Authorised but not contracted for	**487,070**	402,094
	533,365	537,922

(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 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**1,026**	1,184
After 1 year but within 5 years	**2,500**	3,000
	3,526	4,184

(c) Investment commitments

The Group have entered into several investment agreements to incorporate new joint ventures in Russia, Czech and Italy with different partners. Subsequent to the end of the reporting period, these investment projects have been approved by Ministry of Commerce of the PRC. Up to the date of this report, the above investments are still subject to the approval of local government authorities of respective jurisdiction. As at 30 June 2013, the Group had outstanding commitments of USD1,530,200 (equivalent to RMB9,455,000) in respect of its foreign investments not provided for in the interim financial report.

24 Contingent liabilities

On 21 June 2013, TG Tools has issued a guarantee to a bank in respect of a bank facility granted to TGT which expires on 21 June 2014. As at the reporting period, the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the reporting date under the guarantee issued is the outstanding amount of the facility drawn down by TGT of USD2,000,000 (equivalent to RMB12,357,000) (2012: RMB15,049,000). Included in bank deposits, USD2,000,000 (equivalent to RMB12,357,000) (2012: RMB11,500,000) was pledged for the bank facility granted to TGT (see Note 16).