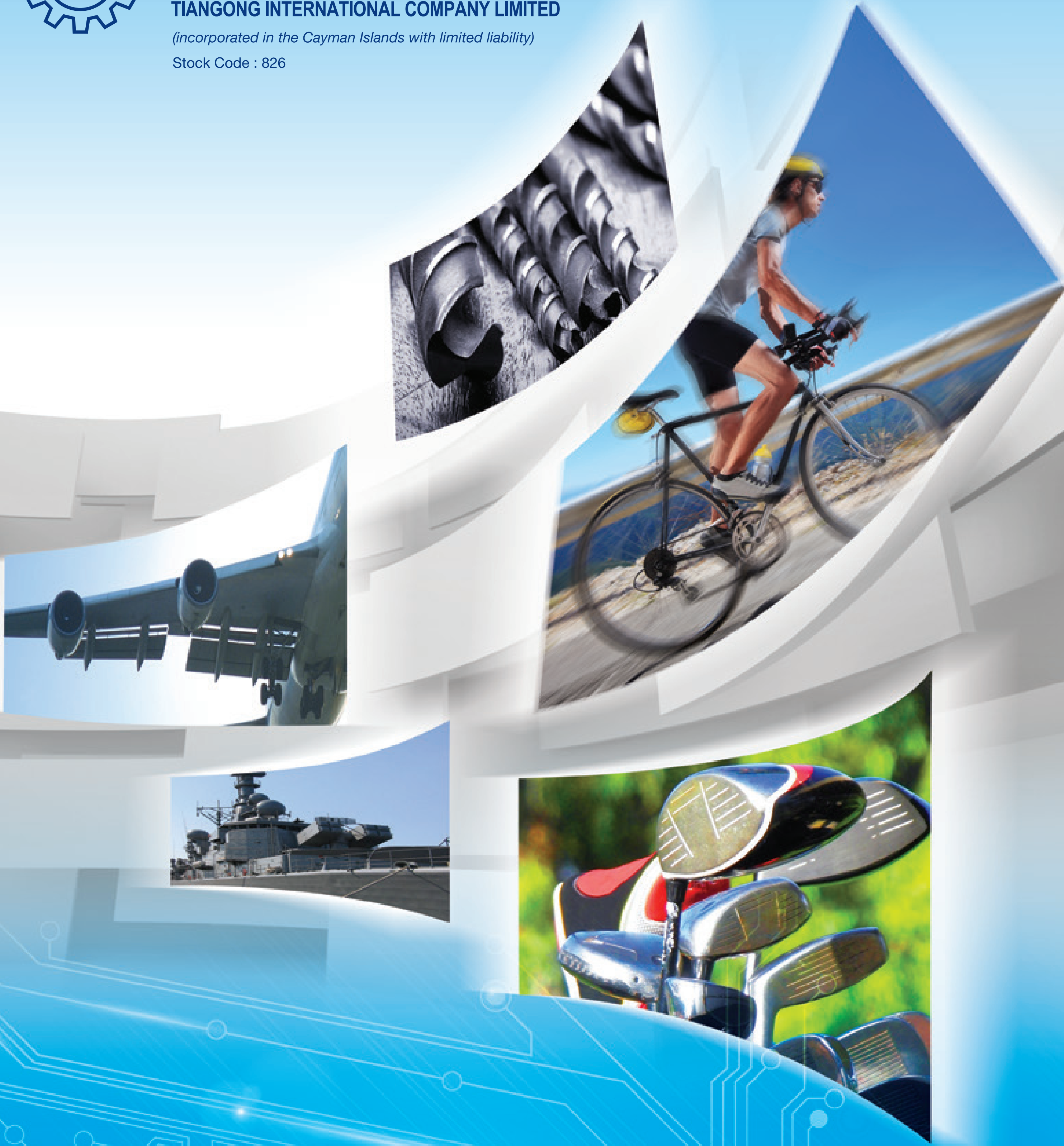
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826



Interim Report 2014

* For identification purpose only

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Corporate Information

Stock Code
Hong Kong Stock Exchange 826

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

Independent Non-executive Directors
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Yin Shuming

Company Secretary
Ms. Lee Man Yin

Authorized Representatives
Mr. Lee Cheuk Yin, Dannis
Ms. Lee Man Yin

Audit Committee
Mr. Lee Cheuk Yin, Dannis *(Chairman)*
Mr. Gao Xiang
Mr. Yin Shuming

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

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

Registered Office in the Cayman Islands
P.O. Box 309
G.T. Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

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

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

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

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

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

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

Business and Market Review

	For the six months ended 30 June					
	2014		2013		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel	**699,073**	**26.2**	598,948	36.3	100,125	16.7
High Speed Steel ("HSS")	**700,890**	**26.3**	398,174	24.1	302,716	76.0
HSS cutting tools	**307,327**	**11.5**	223,336	13.5	83,991	37.6
Titanium alloy	**49,346**	**1.8**	26,404	1.6	22,942	86.9
Trading of goods	**911,579**	**34.2**	405,243	24.5	506,336	124.9
	2,668,215	**100.0**	1,652,105	100.0	1,016,110	61.5

Tiangong International Company Limited (the "Company") and its subsidiaries (collectively the "Group") continued to expand its presence in both the domestic and overseas market. The domestic sales of the Group were benefited from the slight recovery from the China's economy. The Group also set up more joint ventures overseas to increase its sales in overseas market. At the same time, the Group continued to develop new higher grade products to expand its product portfolios which also lead to the increase of the revenue.

Die steel — accounted for approximately 26% of the Group's revenue in 1H2014

	For the six months ended 30 June					
	2014		2013		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**404,876**	**57.9**	326,516	54.5	78,360	24.0
Export	**294,197**	**42.1**	272,432	45.5	21,765	8.0
	699,073	**100.0**	598,948	100.0	100,125	16.7

Die steel ("DS"), 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 1H2014, revenue generated from DS increased by approximately 16.7% to RMB699,073,000 (1H2013: RMB598,948,000). Due to our effort in continuing to expand overseas and domestic markets, both markets experienced a growth during the period.

HSS — accounted for approximately 26% of the Group's revenue in 1H2014

	For the six months ended 30 June					
	2014		2013		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**608,322**	**86.8**	262,530	65.9	345,792	131.7
Export	**92,568**	**13.2**	135,644	34.1	(43,076)	(31.8)
	700,890	**100.0**	398,174	100.0	302,716	76.0

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.

In the 1H2014, a recovery in the domestic market led to the increased demand in HSS. In addition, we developed new higher end products such as M42 to further capture the market shares.

HSS cutting tools — accounted for approximately 12% of the Group's revenue in 1H2014

	For the six months ended 30 June					
	2014		2013		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**141,107**	**45.9**	45,114	20.2	95,993	212.8
Export	**166,220**	**54.1**	178,222	79.8	(12,002)	(6.7)
	307,327	**100.0**	223,336	100.0	83,991	37.6

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 1H2014, revenue generated from HSS cutting tools increased by approximately 37.6% to RMB307,327,000 (1H2013: RMB223,336,000), the increase in domestic market was due to the recovery of the domestic market and the development of higher end products such as taps which has a higher selling price compared with drill bits. The decrease of the sales of the overseas market was mainly due to the decrease in average selling price for the products.

Titanium alloy — increased by 87% in 1H2014, becoming another growth area for the Group's revenue

Titanium alloy segment is currently in the market development stage. Nevertheless, satisfactory results have been achieved from this segment. Aerospace, chemical processing, military and other industrial applications are the main sectors consuming titanium alloy. The Group has been actively seeking business opportunities in different potential areas. The Group aims to offer a broader range of products with higher grades and specifications to meet demands from various industries. It is expected that titanium alloy will soon become another pillar revenue source for the Group in the future.

Trading of goods

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

Outlook

During the period, the Group sustained the growth momentum despite the unstable global economic environment. Going forward into the second half of 2014, the Group will continue to focus on controlling working capital and expanding the overseas markets. At the same time, the Group will keep on developing new products to enrich its product portfolio and to improve the quality of the products to ensure the greatest satisfaction from customers.

Apart from the traditional core segments, the Group is confident that the titanium alloy business will be a growth engine in the near future. Although titanium is often more expensive than other competing metals, it is a better alternative in industrial and aerospace applications because of its strength, durability and overall performance. Through research and development as well as technology enhancement, we will continue to develop the new material industry in a prudent manner with a focus on titanium alloy pipes and flat sheets.

Last but not the least, we wish to re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance, will always be remained as 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 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 by approximately 7.7% from RMB245,807,000 in the first half of 2013 to RMB264,742,000 in the first half of 2014. The increase was mainly attributable to the Group's increase of revenue in all major segments.

Revenue

Revenue of the Group for the first half of 2014 totalled RMB2,668,215,000, representing a significant increase of approximately 61.5% when compared with RMB1,652,105,000 in the first half of 2013. The increase was mainly attributable to the increase of trading of goods and HSS.

Cost of sales

The Group's cost of sales increased from RMB1,213,491,000 for the first half of 2013 to RMB2,190,264,000 for the first half of 2014, representing an increase of approximately 80.5%. The increase was mainly due to the increase in sales during the period.

Gross margin
For the first half of 2014, the gross margin was approximately 17.9% (1H2013: 26.5%). Set out below is the gross margin for our five products for the first half of 2013 and 2014:

	For the six months ended 30 June	
	2014	2013
DS	**32.8%**	40.9%
HSS	**27.6%**	38.3%
HSS cutting tools	**15.6%**	17.5%
Titanium alloy	**14.9%**	3.0%
Trading of goods	**0.04%**	0.3%

DS
The gross margin of DS decreased from 40.9% in the first half of 2013 to 32.8% in the first half of 2014. The decrease was mainly due to the decrease in average selling price of individual products and the increase in production costs.

HSS
The HSS gross margin decreased from 38.3% in the first half of 2013 to 27.6% in the same period in 2014. The decrease was mainly due to the decrease in average selling price of individual products and the increase in production costs.

HSS cutting tools
In the first half of 2014, the gross margin of HSS cutting tools decreased to 15.6% (1H2013: 17.5%) as a result of the general increase in production costs.

Titanium alloy
The gross margin of titanium alloy increased to 14.9% from 3.0% as a result of the increase in sales volume so that fixed costs were amortised to more units of goods sold and therefore the per-unit product costs decreased. Also, there was a provision for impairment made to the inventories during the last period, no such impairment was made during the current period.

Other income
The Group's other income decreased from RMB36,442,000 in the first half of 2013 to RMB27,411,000 in the first half of 2014 was mainly attributable to the decrease in government grants received from the government.

Distribution expenses
The Group's distribution expenses were RMB31,670,000 (1H2013: RMB25,277,000), representing an increase of approximately 25.3%. The increase was mainly attributable to the increase in transportation expenses as a result of the increase in sales volume. For the first half of 2014, the distribution expenses as a percentage of revenue was 1.2% (1H2013: 1.5%).

Administrative expenses
For the first half of 2014, the Group's administrative expenses increased to RMB57,219,000 (1H2013: RMB50,984,000). The increase was mainly due to the increase in personnel costs due to implementation of various initiatives by the Group. For the first half of 2014, the administrative expenses as a percentage of revenue was 2.1% (1H2013: 3.1%).

Net finance cost

The Group's finance income increased from RMB2,137,000 for the first half of 2013 to RMB4,128,000 for the first half of 2014. The increase was mainly due to the increase in average pledged deposits during the first half of 2014 compared with the average pledged deposits in the first half of 2013. The Group's finance expenses increased from RMB63,023,000 for the first half of 2013 to RMB71,493,000 for the first half of 2014, which was attributable to the increase in interest-bearing borrowings in 2014 compared with the same period last year.

Income tax expense

The Group's income tax expense decreased from RMB75,773,000 in the first half of 2013 to RMB49,654,000 in the first half of 2014. Such decrease was mainly due to a 10% tax amounting to RMB22,222,000 withheld for a dividend distributed by Jiangsu Tiangong Tools Company Limited ("TG Tools") to its holding company for expanding its issued capital in the first half of 2013 while no such tax was paid during the current period.

Profit for the period

As a result of the factors discussed above, the Group's profit increased by approximately 7.4% to RMB264,543,000 for the first half of 2014 from RMB246,261,000 for the first half of 2013. The Group's net profit margin decreased from 14.9% in the first half of 2013 to 9.9% in the same period of 2014 mainly due to the increase of trading of goods which contributed to a lower gross margin and brought down the net margin.

Profit attributable to equity shareholders of the Company

For the first half of 2014, profit attributable to equity shareholders of the Company was RMB264,742,000 (1H2013: RMB245,807,000), representing an increase of 7.7%.

Trade and bills receivable

The trade and bills receivable increased from RMB1,446,819,000 as at 31 December 2013 to RMB1,950,083,000 as at 30 June 2014 which was mainly due to the increase in sales in the second quarter in 2014 as compared with the fourth quarter sales in 2013. The provision for doubtful debts of RMB60,593,000 (2013: RMB26,972,000) accounted for 3.0% (2013: 1.8%) of the trade and bills receivable. The increase was due to the extension in aging as compared with the balance as at 31 December 2013.

Liquidity and Financial Resources

As at 30 June 2014, the Group's current assets mainly included cash and cash equivalents of approximately RMB162,608,000, inventories of approximately RMB1,879,323,000, trade and other receivables of RMB2,220,617,000, time deposits of RMB418,600,000 and pledged deposits of RMB413,650,000. As at 30 June 2014, the interest-bearing borrowings of the Group were RMB2,909,201,000, RMB2,210,381,000 of which were repayable within one year and RMB698,820,000 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 57.0%, slightly lower than 57.7% as at 31 December 2013. As at 30 June 2014, borrowings of RMB2,326,080,000 were in RMB, USD65,836,000 were in USD, EUR10,600,000 were in EUR and HKD112,199,000 were in HKD. The majority of the borrowings of the Group were subject to interests payable at the rates ranging from 1.84% to 6.60%. The Group did not enter into any interest rate swap to hedge itself against the risks associated with interest rates. The net cash generated from operating activities during the period were RMB381,037,000.

Capital Expenditures and Capital Commitments

For the first half of 2014, the Group's net increase in fixed assets amounted to RMB307,832,000, which were mainly for the 750 tons forging machine which will be used for the production of HSS and DS. As at 30 June 2014, capital commitments were RMB118,729,000, of which RMB58,729,000 was contracted and RMB60,000,000 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, USD and EUR, with RMB accounting for the largest portion (approximately 79%). Approximately 21% 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 2014, the Group pledged certain bank deposits amounting to approximately RMB413,650,000 (31 December 2013: RMB250,236,000) and certain trade receivables amounting to approximately RMB181,508,000 (31 December 2013: RMB278,793,000) and bills receivable of RMB60,000,000 (31 December 2013: nil). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2014, the Group employed 3,298 employees (31 December 2013: 3,704). 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 March 2014, TG Tools issued a guarantee to a bank in respect of a bank facility granted to TGT Special Steel Company Limited ("TGT"), a joint venture of the Group which will expire on 16 January 2015. As at 30 June 2014, 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 RMB12,306,000). Included in bank deposits, RMB12,600,000 was pledged for the bank facility granted to TGT.

On 23 June 2014, TG Tools issued a guarantee to a bank in respect of a bank facility granted to Czechtools and Materials s.r.o ("CM s.r.o") which will expire on 22 June 2015. The Group is in the process to acquire 50% of interests in CM s.r.o, and it will be a joint venture of the Group when the acquisition is completed. As at 30 June 2014, 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 CM s.r.o of EUR1,600,000 (equivalent to RMB13,431,000). Included in bank deposits, RMB14,000,000 was pledged for the bank facility granted to CM s.r.o.

Report of the Directors

The board of Directors (the "Board") is pleased to submit the interim report together with the consolidated financial statements for the six months ended 30 June 2014 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 2013).

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

As at 30 June 2014, 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	769,556,000 (L)	39.52
	Corporate interests	50,000,000 (S)	2.57
	Beneficial owner[3]	400,000 (L)	0.02
			42.11
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 2014,

(1) Tiangong Holdings Company Limited ("THCL") held 725,624,000 Ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 725,624,000 Shares held by THCL.

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

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

(L) Represents long position.

(S) Represents short position.

(b) Interests in the shares of associated corporation

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

(L) Represents long position.

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

Substantial Shareholders' Interests

As at 30 June 2014, 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)	769,956,000 (L)	39.54
	50,000,000 (S)	2.57
THCL (Note 1)	725,624,000 (L)	37.26
	50,000,000 (S)	2.57
Delta Lloyd Asset Management NV (Note 2)	156,313,800 (L)	8.03
The Capital Group Companies, Inc. (Note 3)	132,674,000 (L)	6.81

Note:

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

(2) Delta Lloyd Asset Management NV reported that it is deemed to be interested in the shares of the Company as investment manager and by virtue of its interest in Delta Lloyd Azië Deelnemingen Fonds N.V., a corporation 84.82% controlled by it.

(3) 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.

(L) Represents long position.

(S) Represents short position.

Share Option Scheme

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

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

2. The maximum number of shares over which options may be granted under the Scheme must not exceed 80,000,000 shares of nominal value USD0.0025 each in the capital of the Company.

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

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

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

6. The amount payable on acceptance per grant is HKD1.00.

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

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

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

On 17 January 2014, the Company granted an aggregate of 9,057,000 share options to employees of the Company to subscribe for ordinary shares with a nominal value of USD0.0025 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 1 June 2014 to 31 May 2016 at an exercise price of HKD2.50 per share.

At 30 June 2014, 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 2014 was HKD1.32) 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	7,600,000	–	(6,040,000)	–	28 January 2011	01 July 2012–30 June 2016	HKD1.275	HKD1.275	HKD2.54
Employees	–	9,057,000	–	(55,000)	17 January 2014	01 June 2014–31 May 2016	HKD2.50	HKD2.48	

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

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

Purchase, Sales or Redemption of Shares

On 7 February 2014, an aggregate of 40,000,000 warrants were issued to six placees in accordance with the terms of the warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant (No warrants were issued in the six months ended 30 June 2013). The holders of the warrants shall have the right to subscribe for 40,000,000 of the Company's ordinary shares at an initial exercise price of RMB2.07 per ordinary share (equivalent to approximately HKD2.65 at a fixed exchange rate of RMB1 to HKD1.2807) per share within 3 years from the date of issue. The consideration received of RMB629,000 net off direct expenses of RMB42,000 were credited to capital reserve.

Subsequent to 30 June 2014, a warrant subscription agreement was entered into between the Company and a subscriber whereby the Company has agreed to create and issue and the subscriber has agreed to subscribe for 70,000,000 warrants at the purchase price of HKD0.02 per warrant. Each warrant will entitle holder to subscribe for one share at a subscription price of RMB1.3593 (equivalent to approximately HKD1.70 at a fixed exchange rate of RMB1 to HKD1.2506) per share, subject to adjustment, during a period of one year commencing from 14 July 2014.

The proceeds from the above warrant subscription, being HKD800,000 and HKD1,400,000, respectively, have been used for payment of the costs and expenses in connection with the warrant subscription and used as general working capital of the Company. Any additional proceeds from the issue of the shares upon the exercise of the subscription rights attaching to the warrants in future will be applied as general working capital and as funds for future development of the Group.

Save for disclosed above, neither the Company nor any of its subsidiaries purchases, sold or redeemed any of the Company's shares during the period and up to the date of this announcement.

Corporate Governance

During the six months ended 30 June 2014, 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 14 August 2014 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 2014 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

15 August 2014

Independent Review Report

TO THE BOARD OF DIRECTORS OF
TIANGONG INTERNATIONAL COMPANY LIMITED
For the six months ended 30 June 2014
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 15 to 38 which comprises the consolidated statement of financial position of Tiangong International Company Limited as of 30 June 2014 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 2014 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

15 August 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014 (unaudited)

	Note	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Revenue	3	**2,668,215**	1,652,105
Cost of sales		**(2,190,264)**	(1,213,491)
Gross profit		**477,951**	438,614
Other income	4	**27,411**	36,442
Distribution expenses		**(31,670)**	(25,277)
Administrative expenses		**(57,219)**	(50,984)
Other expenses	5	**(42,462)**	(21,274)
Profit from operations		**374,011**	377,521
Finance income		**4,128**	2,137
Finance expenses		**(71,493)**	(63,023)
Net finance costs	6(a)	**(67,365)**	(60,886)
Share of losses of associates		**(1,739)**	(907)
Share of profits of joint ventures		**9,290**	6,306
Profit before income tax	6	**314,197**	322,034
Income tax expense	7	**(49,654)**	(75,773)
Profit for the period		**264,543**	246,261
Attributable to:			
Equity shareholders of the Company		**264,742**	245,807
Non-controlling interests		**(199)**	454
Profit for the period		**264,543**	246,261
Earnings per share (RMB)	8		
Basic		**0.136**	0.127
Diluted		**0.136**	0.126

The notes on pages 21 to 38 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 16(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014 (unaudited)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit for the period	**264,543**	246,261
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")	**254**	(2,245)
Total comprehensive income for the period	**264,797**	244,016
Attributable to:		
Equity shareholders of the Company	**264,996**	243,562
Non-controlling interests	**(199)**	454
Total comprehensive income for the period	**264,797**	244,016

The notes on pages 21 to 38 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2014 (unaudited)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	9	**2,776,811**	2,468,979
Lease prepayments		**68,597**	69,389
Goodwill		**22,086**	22,086
Interest in associates		**37,289**	38,952
Interest in joint ventures		**16,217**	5,419
Other financial assets		**10,000**	10,000
Deferred tax assets		**20,382**	20,940
		2,951,382	2,635,765
Current assets			
Inventories	10	**1,879,323**	1,978,542
Trade and other receivables	11	**2,220,617**	1,653,855
Pledged deposits	12	**413,650**	250,236
Time deposits		**418,600**	553,500
Cash and cash equivalents	13	**162,608**	88,406
		5,094,798	4,524,539
Current liabilities			
Interest-bearing borrowings	14	**2,210,381**	2,359,182
Trade and other payables	15	**1,669,422**	1,143,560
Current taxation		**69,983**	72,340
Deferred income		**581**	1,162
		3,950,367	3,576,244
Net current assets		**1,144,431**	948,295
Total assets less current liabilities		**4,095,813**	3,584,060
Non-current liabilities			
Interest-bearing borrowings	14	**698,820**	367,423
Deferred income		**2,544**	3,704
Deferred tax liabilities		**36,959**	34,462
		738,323	405,589
Net assets		**3,357,490**	3,178,471

The notes on pages 21 to 38 form part of this interim financial report.

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Capital and reserves		
Share capital	**36,054**	35,962
Reserves	**3,319,020**	3,139,894
Total equity attributable to equity shareholders of the Company	**3,355,074**	3,175,856
Non-controlling interests	**2,416**	2,615
Total equity	**3,357,490**	3,178,471

Approved and authorised for issue by the board of directors on 15 August 2014.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on pages 21 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014 (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	Equity Total RMB'000
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 16(a))	—	—	—	—	—	—	(89,488)	(89,488)	—	(89,488)
Exercise of share options (Note 16(b))	159	15,515	(5,311)	—	—	—	—	10,363	—	10,363
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	2,240	2,240
Balance at 30 June 2013 and 1 July 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
Changes in equity for the six months ended 31 December 2013										
Profit for the period	—	—	—	—	—	—	223,921	223,921	(79)	223,842
Other comprehensive income	—	—	—	—	215	—	—	215	—	215
Total comprehensive income	—	—	—	—	215	—	223,921	224,136	(79)	224,057
Transfer to reserve	—	—	—	—	—	106,657	(106,657)	—	—	—
Balance at 31 December 2013	35,962	1,221,996	61,765	91,925	(5,068)	428,155	1,341,121	3,175,856	2,615	3,178,471
Balance at 1 January 2014	**35,962**	**1,221,996**	**61,765**	**91,925**	**(5,068)**	**428,155**	**1,341,121**	**3,175,856**	**2,615**	**3,178,471**
Changes in equity for the six months ended 30 June 2014										
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**264,742**	**264,742**	**(199)**	**264,543**
Other comprehensive income	**—**	**—**	**—**	**—**	**254**	**—**	**—**	**254**	**—**	**254**
Total comprehensive income	**—**	**—**	**—**	**—**	**254**	**—**	**264,742**	**264,996**	**(199)**	**264,797**
Dividends approved in respect of previous year (Note 16(a))	**—**	**—**	**—**	**—**	**—**	**—**	**(96,192)**	**(96,192)**	**—**	**(96,192)**
Exercise of share options (Note 16(b))	**92**	**9,120**	**(3,157)**	**—**	**—**	**—**	**—**	**6,055**	**—**	**6,055**
Issuance of share options (Note 17)	**—**	**—**	**3,772**	**—**	**—**	**—**	**—**	**3,772**	**—**	**3,772**
Issuance of warrants (Note 16(c))	**—**	**—**	**587**	**—**	**—**	**—**	**—**	**587**	**—**	**587**
Balance at 30 June 2014	**36,054**	**1,231,116**	**62,967**	**91,925**	**(4,814)**	**428,155**	**1,509,671**	**3,355,074**	**2,416**	**3,357,490**

The notes on pages 21 to 38 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2014 (unaudited)

	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Operating activities		
Cash generated from/(used in) operations	**429,993**	(12,611)
Tax paid	**(48,956)**	(77,736)
Net cash generated from/(used in) operating activities	**381,037**	(90,347)
Investing activities		
Payment for the purchase of property, plant and equipment	**(385,641)**	(187,397)
Other cash flows arising from investing activities	**(27,210)**	(71,381)
Net cash used in investing activities	**(412,851)**	(258,778)
Financing activities		
Proceeds from new interest-bearing borrowings	**2,495,091**	1,991,336
Repayment of interest-bearing borrowings	**(2,312,308)**	(1,453,543)
Interest paid	**(83,880)**	(69,732)
Other cash flows arising from financing activities	**6,642**	10,363
Net cash generated from financing activities	**105,545**	478,424
Net increase in cash and cash equivalents	**73,731**	129,299
Cash and cash equivalents at 1 January	**88,406**	150,499
Effect of foreign exchange rates changes	**471**	—
Cash and cash equivalents at 30 June	**162,608**	279,798

The notes on pages 21 to 38 form part of this 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 15 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2014 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 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 14.

The financial information relating to the financial year ended 31 December 2013 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 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in the report dated 26 March 2014.

2. Changes in accounting policies

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

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

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

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group does not have impaired non-financial assets whose recoverable amount is based on fair value less costs of disposal.

Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

3. Revenue and segment reporting

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

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

—	*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.
—	*Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.
—	*Trading of goods*	The trading of goods segment sells aluminium, silicon iron, billet steel and chemical goods (purified terephthatic acid).

(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.

3. Revenue and segment reporting (Continued)

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

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

	As at 30 June 2014					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	2,305,793	1,075,255	3,222,588	275,406	26,952	6,905,994
Reportable segment liabilities	562,385	268,626	698,275	13,032	2,422	1,544,740

3. Revenue and segment reporting (Continued)

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

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

	As at 31 December 2013					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	2,015,344	1,050,047	2,789,734	221,381	25,888	6,102,394
Reportable segment liabilities	436,507	196,887	453,205	13,257	22,508	1,122,364

3. Revenue and segment reporting (Continued)

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

Revenue	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Reportable segment revenue	**2,761,009**	1,747,381
Elimination of inter-segment revenue	**(92,794)**	(95,276)
Consolidated revenue	**2,668,215**	1,652,105

Profit	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Reportable segment profit	**446,281**	413,337
Net finance costs	**(67,365)**	(60,886)
Share of losses of associates	**(1,739)**	(907)
Share of profits of joint ventures	**9,290**	6,306
Other unallocated head office and corporate expenses	**(72,270)**	(35,816)
Consolidated profit before income tax	**314,197**	322,034

Assets	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Reportable segment assets	**6,905,994**	6,102,394
Interest in associates	**37,289**	38,952
Interest in joint ventures	**16,217**	5,419
Other financial assets	**10,000**	10,000
Deferred tax assets	**20,382**	20,940
Pledged deposits	**413,650**	250,236
Time deposits	**418,600**	553,500
Cash and cash equivalents	**162,608**	88,406
Other unallocated head office and corporate assets	**61,440**	90,457
Consolidated total assets	**8,046,180**	7,160,304

3. Revenue and segment reporting (Continued)

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

Liabilities	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Reportable segment liabilities	**1,544,740**	1,122,364
Interest-bearing borrowings	**2,909,201**	2,726,605
Current taxation	**69,983**	72,340
Deferred tax liabilities	**36,959**	34,462
Other unallocated head office and corporate liabilities	**127,807**	26,062
Consolidated total liabilities	**4,688,690**	3,981,833

(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.

	Six months ended 30 June	
Revenue	2014 RMB'000	2013 RMB'000
The PRC	**2,102,874**	940,564
North America	**212,679**	221,432
Europe	**210,309**	186,180
Asia (other than the PRC)	**125,511**	293,912
Others	**16,842**	10,017
Total	**2,668,215**	1,652,105

4. Other income

		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Government grants	(i)	**14,883**	28,163
Sales of scrap materials		**9,667**	6,585
Dividend income from unlisted securities		**800**	800
Others		**2,061**	894
		27,411	36,442

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, received unconditional grants amounting to RMB14,302,000 (six months ended 30 June 2013: RMB27,582,000) from the local government in Danyang City 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 2013: RMB581,000) during the six months ended 30 June 2014.

5. Other expenses

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Provision of impairment losses for doubtful trade receivables	**39,857**	17,327
Foreign exchange loss	**1,343**	2,664
Net loss on disposal of property, plant and equipment	**181**	956
Others	**1,081**	327
	42,462	21,274

6. Profit before income tax

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

(a) Net finance costs

	Note	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Interest income		**(4,128)**	(2,137)
Finance income		**(4,128)**	(2,137)
Interest on bank loans		**83,612**	74,524
Less: interest expense capitalised into property, plant and equipment under construction	9	**(12,119)**	(11,501)
Finance expenses		**71,493**	63,023
Net finance costs		**67,365**	60,886

(b) Other items

	Note	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Cost of inventories*		**2,190,264**	1,213,491
Depreciation		**83,694**	63,933
Amortisation of lease prepayments		**791**	791
Provision/(Reversal) for write-down of inventories	10	**5,829**	(11,756)

* Cost of inventories includes RMB85,384,000 (six months ended 30 June 2013: RMB48,175,000) relating to depreciation expenses and provision/(reversal) for write-down of inventories which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. Income tax expense

	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Current tax		
Provision for PRC income tax — corporation tax	**46,599**	52,656
Provision for PRC withholding tax on dividend	**—**	32,165
Provision for Hong Kong profits tax	**—**	—
	46,599	84,821
Deferred tax		
Origination and reversal of temporary differences	**3,055**	(9,048)
	49,654	75,773

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

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

TG Tools, Tiangong Aihe Company Limited ("TG Aihe") and Jiangsu Tiangong Titanium Technology Company Limited ("TG Titan") are subject to a preferential income tax rate of 15% in 2014 available to enterprises which qualify as a High and New Technology Enterprise (2013: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2013: 25%).

(c) The provision for PRC withholding tax on dividend is based on the tax rate of 10% on profit appropriations from TG Tools to China Tiangong (Hong Kong) Company Limited ("CTCL (HK)"). No profit was appropriated from TG Tools to CTCL (HK) during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB321,650,000).

(d) No provision has been made for Hong Kong profits tax as the subsidiaries located in Hong Kong sustained a loss for taxation purpose during both the current period and the prior period.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB264,742,000 (six months ended 30 June 2013: RMB245,807,000) and the weighted average of 1,946,758,889 ordinary shares in issue during the interim period (six months ended 30 June 2013: 1,940,618,267).

(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 RMB264,742,000 (six months ended 30 June 2013: RMB245,807,000) and the weighted average number of potential ordinary shares of 1,947,732,865 (six months ended 30 June 2013: 1,944,835,296) for the six months ended 30 June 2014 after taking into account the potential dilutive effect of the share options.

9. Property, plant and equipment

During the six months ended 30 June 2014, the Group acquired items of plant and machinery with a cost of RMB379,690,000 (six months ended 30 June 2013: RMB191,598,000), excluding capitalised borrowing costs of RMB12,119,000 (six months ended 30 June 2013: RMB11,501,000). There were no material disposals of property, plants and equipment for the periods presented.

10. Inventories

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Raw materials	**72,413**	85,124
Work in progress	**1,150,400**	915,962
Finished goods	**656,510**	977,456
	1,879,323	1,978,542

During the six months ended 30 June 2014, the Group recognised a write-down of RMB5,829,000 (six months ended 30 June 2013: a write-back of RMB11,756,000) 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 profit or loss and other comprehensive income.

11. Trade and other receivables

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade receivables	**1,391,181**	1,064,159
Bills receivable	**619,495**	409,632
Less: provision for doubtful debts	**(60,593)**	(26,972)
Net trade and bills receivable	**1,950,083**	1,446,819
Prepayments	**208,893**	116,402
Non-trade receivables	**73,490**	96,247
Less: impairment loss on non-trade receivables	**(11,849)**	(5,613)
	2,220,617	1,653,855

Trade receivables of RMB181,508,000 (2013: RMB278,793,000) and bills receivable of RMB60,000,000 (2013: Nil) have been pledged to a bank as security for the Group's bank loans as disclosed in note 14.

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 2014 RMB'000	At 31 December 2013 RMB'000
Within 3 months	**1,308,769**	1,117,802
4 to 6 months	**453,194**	247,275
7 to 12 months	**165,867**	63,027
1 to 2 years	**18,654**	18,695
Over 2 years	**3,599**	20
	1,950,083	1,446,819

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

12. Pledged deposits

Bank deposits of RMB413,650,000 (2013: RMB250,236,000) have been pledged to banks as security for the bank acceptance bills and other banking facilities (as described in Note 21) of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

13. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2014 are cash at bank and in hand.

14. Interest-bearing borrowings

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Current			
Secured bank loans	(i)	**306,279**	311,647
Unsecured bank loans	(ii)	**1,664,102**	1,608,035
Current portion of non-current unsecured bank loans	(iii)	**240,000**	439,500
		2,210,381	2,359,182
Non-current			
Secured bank loans	(i)	**153,820**	152,423
Unsecured bank loans	(iii)	**785,000**	654,500
Less: Current portion of non-current unsecured bank loans	(iii)	**(240,000)**	(439,500)
		698,820	367,423
		2,909,201	2,726,605

(i) The bank loans were secured by certain trade receivables and sales contracts at interest rates ranging from 1.84% to 4.86% per annum (2013: 1.84% to 6.50%).

(ii) Current unsecured bank loans carried interest at annual rates ranging from 2.33% to 6.60% (2013: 2.16% to 6.48%) and were all repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 4.20% to 6.15% (2013: 4.20% to 6.15%).

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**240,000**	439,500
After 1 year but within 2 years	**698,820**	367,423
	938,820	806,923

15. Trade and other payables

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 3 months	691,772	598,238
4 to 6 months	628,078	292,680
7 to 12 months	57,843	35,528
1 to 2 years	30,473	11,834
Over 2 years	13,473	15,337
Total trade creditors and bills payable	1,421,639	953,617
Non-trade payables and accrued expenses	151,591	189,943
Dividends payable	96,192	—
	1,669,422	1,143,560

16. 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 2014 RMB'000	2013 RMB'000
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0494 per share (six months ended 30 June 2013: RMB0.0461 per share)	96,192	89,488

(b) Shares issued under share option scheme

During the six months ended 30 June 2014, options were exercised to subscribe for 6,040,000 ordinary shares (six months ended 30 June 2013: 10,160,000) in the Company at a consideration of RMB6,055,000 (six months ended 30 June 2013: RMB10,363,000) of which RMB92,000 (six months ended 30 June 2013: RMB159,000) was credited to share capital and the balance of RMB5,963,000 (six months ended 30 June 2013: RMB10,204,000) was credited to the share premium account. RMB3,157,000 (six months ended 30 June 2013: RMB5,311,000) has been transferred from the capital reserve to the share premium account.

16. Capital, reserves and dividends (Continued)

(c) Issuance of warrants

On 7 February 2014, an aggregate of 40,000,000 warrants were issued to six placees in accordance with the terms of a warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant (No warrants were issued in the six months ended 30 June 2013). The holders of the warrants shall have the right to subscribe for 40,000,000 of the Company's ordinary shares at an initial exercise price of RMB2.07 per ordinary share (equivalent to approximately HKD2.65 at a fixed exchange rate of RMB1 to HKD1.2807) per share within 3 years from the date of issue. The consideration received of RMB629,000 net of direct expenses of RMB42,000 was credited to capital reserve.

17. Equity settled share-based transactions

On 17 January 2014, the Company granted an aggregate of 9,057,000 share options to employees of the Company to subscribe for ordinary shares of USD0.0025 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 1 June 2014 to 31 May 2016 at an exercise price of HKD2.50 per share. The amount payable on acceptance per grant is HKD1.00. Each share option was valued at approximately HKD0.5323 by an external appraiser.

(a) The terms and conditions of the grants are as follows, whereby all options are to be settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to employees:			
— on 17 January 2014	9,057,000	Immediately on 1 June 2014	2.37 years

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Granted on 17 January 2014
Fair value at grant date	HKD0.5323 per share option
Share price	HKD2.48 per share
Exercise price	HKD2.5 per share
Expected volatility	43.53%
Option life	2.37 years
Expected dividend yield	3.46%
Risk-free interest rate (based on Hong Kong Government Bond)	0.45%

The expected volatility is based on the historical volatility of the Company over the contractual life of the options as at the date of valuation.

17. Equity settled share-based transactions (Continued)

(b) Fair value of share options and assumptions (Continued)

Expected dividend yield is based on historical dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions have not been taken into account in the grant-date fair value measurement of the services received. There were no market conditions associated with the share option grants.

During the six months period ended 30 June 2014, the amortisation of share option expenses of RMB3,772,000 was charged to capital reserve (2013: Nil). No share options have been exercised for the six months ended 30 June 2014.

18. Related party transactions

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

(a) Significant related party transactions — recurring

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Lease expense to:		
Controlling shareholder's company	**500**	500
Sales of goods to:		
Associates	**21,017**	25,855
Joint ventures	**40,049**	87,090
Freight expense from:		
Associates	**6,790**	19,412
Lease income from:		
Associates	**25**	25

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

18. Related party transactions (Continued)

(b) Amounts due from related parties

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Associates	**8,877**	2,272
Joint ventures	**58,865**	83,422
	67,742	85,694

(c) Amounts due to related parties

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Associates	**5,290**	4,562
Controlling shareholder's company	**417**	381
	5,707	4,943

19. 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 2014 and 31 December 2013.

20. Commitments

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Contracted for	**58,729**	50,615
Authorised but not contracted for	**60,000**	597,303
	118,729	647,918

20. Commitments (Continued)

(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 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**1,000**	1,361
After 1 year but within 5 years	**1,500**	2,211
	2,500	3,572

(c) Investment commitments

The Group have entered into several investment agreements to incorporate new ventures in Russia, the Czech Republic and Italy with different partners. As at 30 June 2014, these investment projects have been approved by Ministry of Commerce of the PRC. Up to the date of this report, these investments are still subject to the approval of local government authorities of respective jurisdictions. As at 30 June 2014, the Group had outstanding commitments of USD700,000 (equivalent to RMB4,307,000) in respect of its foreign investments not provided for in the interim financial report.

21. Contingent liabilities

On 21 March 2014, TG Tools issued a guarantee to a bank in respect of a bank facility granted to TGT Special Steel Company Limited ("TGT"), a joint venture of the Group, which will expire on 16 January 2015. As at 30 June 2014, 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 RMB12,306,000). Included in bank deposits, RMB12,600,000 was pledged for the bank facility granted to TGT (see Note 12).

On 23 June 2014, TG Tools issued a guarantee to a bank in respect of a bank facility granted to Czechtools and Materials s.r.o ("CM s.r.o") which expires on 22 June 2015. The Group is in the process to acquire 50% of interests in CM s.r.o, and it will be a JV of the Group when the acquisition is completed. As at 30 June 2014, 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 CM s.r.o of EUR1,600,000 (equivalent to RMB13,431,000). Included in bank deposits, RMB14,000,000 was pledged for the bank facility granted to CM s.r.o (see Note 12).

22. Non-adjusting events after the reporting period

On 14 July 2014, a warrant subscription agreement was entered into between the Company and a subscriber whereby the Company has agreed to create and issue and the subscriber has agreed to subscribe for 70,000,000 warrants at the purchase price of HKD0.02 per warrant. Each warrant will entitle the holder to subscribe for one share at a subscription price of RMB1.3593 (equivalent to approximately HKD1.70 at a fixed exchange rate of RMB1 to HKD1.2506) per share, subject to adjustment, during a period of one year commencing from 14 July 2014.