

* For identification purpose only



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 2016



Contents

Corporate Information	2
Management Discussion and Analysis	3
Report of the Directors	10
Independent Review Report	15
Consolidated Statement of Profit or Loss	16
Consolidated Statement of Profit or Loss and Other Comprehensive Income	17
Consolidated Statement of Financial Position	18
Consolidated Statement of Changes in Equity	20
Condensed Consolidated Cash Flow Statement	22
Notes to the Unaudited Interim Financial Report	23



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

Mr. Lee Johnly

Authorized Representatives

Mr. Lee Cheuk Yin, Dannis
Mr. Lee Johnly

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Registered Office in the Cayman Islands

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

Principal Place of Business

Danbei Town
Danyang City
Jiangsu Province
The PRC

Auditors

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

Hong Kong Legal Adviser

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Center
183 Queen's Road East, Wanchai
Hong Kong

Principal Bankers

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
The Export-Import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

Management Discussion and Analysis



Business and Market Review

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

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

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

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

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

DS is manufactured with rare metals including molybdenum, chromium and vanadium, a type of high alloy special steel. DS is mainly used in die and mould casting as well as machining processing. Many different manufacturing industries require moulds, including automotive, high-speed railway construction, aviation and plastic product manufacturing.

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

Management Discussion and Analysis

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

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

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

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

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

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

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

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

Management Discussion and Analysis



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

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

Titanium alloy segment has been a growing segment among the Group's products. The corrosion resistance nature of the titanium alloy promoted the extensive applications of titanium alloy in various areas, including aerospace, chemical pipeline equipment, nuclear and ocean industry.

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

Trading of goods

This segment involves the purchase and sales of goods which mainly comprises billet steel and screw steel. Due to its slim profitability, the Group will not spend too much focus in this segment.

Outlook

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

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

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

Further, on 6 June 2016, TG Tech entered into another subscription agreement with Nanjing Steel, certain directors and core management of TG Tech for a subscription of total of 65 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to approximately RMB80.6 million (the "Second Placing").



Management Discussion and Analysis

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

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

Forward Looking Statements

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

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

Financial review

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

Revenue

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

Cost of sales

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

Management Discussion and Analysis



Gross margin

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

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

DS

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

HSS

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

HSS cutting tools

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

Titanium alloy

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

Other income

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

Distribution expenses

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

Administrative expenses

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



Management Discussion and Analysis

Net finance cost

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

Income tax expense

The Group's income tax expense decreased from RMB13,401,000 in the first half of 2015 to RMB6,372,000 in the first half of 2016. Such decrease was mainly due to the decrease in the Group's taxable profit in the current period.

Profit for the period

As a result of the factors discussed above, the Group's profit decreased by approximately 55.3% to RMB26,864,000 for the first half of 2016 from RMB60,055,000 for the first half of 2015. The Group's net profit margin decreased from 3.2% in the first half of 2015 to 1.7% in the same period of 2016.

Profit attributable to equity shareholders of the Company

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

Trade and bills receivable

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

Liquidity and Financial Resources

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

As at 30 June 2016, the interest-bearing borrowings of the Group were RMB3,147,214,000 (31 December 2015: RMB3,066,874,000), RMB3,018,539,000 (31 December 2015: RMB2,580,896,000) of which were repayable within one year and RMB128,675,000 (31 December 2015: RMB485,978,000) of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was 48.8%, comparing to 49.0% as at 31 December 2015.

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



Capital Expenditures and Capital Commitments

For the first half of 2016, the Group's net increase in fixed assets amounted to RMB3,556,000 (1H 2015: RMB96,701,000). Comparing to the significant capital expenditures mainly incurred for the project of "continuous rolling mill" in the first half of 2015, the Group initiated fewer projects and therefore incurred less capital expenditures in the first half of 2016. As at 30 June 2016, capital commitments were RMB455,523,000 (31 December 2015: RMB467,945,000), of which RMB36,071,000 (31 December 2015: RMB45,449,000) was contracted and RMB419,452,000 (31 December 2015: RMB422,496,000) was authorised but not contracted for. The majority of the capital commitments was related to the acquisition and enhancement of production equipment and are expected to be financed by a combination of our internal cash resources and operating cash flows.

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (approximately 70.7% (31 December 2015: 70.8%)). Approximately 29.3% (31 December 2015: 29.2%) of the total sales and operating profit were subject to exchange rate fluctuations. The Group did not enter into any financial instrument to hedge against foreign exchange risk. The Group has put in place measures such as monthly review of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 30 June 2016, the Group pledged certain bank deposits amounting to approximately RMB488,230,000 (31 December 2015: RMB445,389,000) and certain trade receivables amounting to approximately RMB140,333,000 (31 December 2015: RMB91,509,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2016, the Group employed 3,352 employees (31 December 2015: 3,270). Total staff costs for the first half of 2016 amounted to RMB110,440,000 (1H2015: RMB89,622,000). The increase is mainly due to the increase in the average salary to employees. The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

Contingent Liabilities

Both the Group and the Company had no material contingent liabilities as at 30 June 2016 (31 December 2015: No material contingent liabilities).

No Material Change

Save as disclosed in this report, information in relation to the Group's performance in the Reporting Period for matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from the information disclosed in the 2015 annual report of the Company.

Report of the Directors

Report of the Directors

The board (the “Board”) of directors (the “Directors”) of the Company is pleased to submit the interim report together with the consolidated financial statements of the Group for the six months ended 30 June 2016 which have been reviewed by the Company’s auditor KPMG, and the audit committee of the Company (the “Audit Committee”).

Interim Dividend

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2016 (no interim dividend for the six months period ended 30 June 2015).

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

As at 30 June 2016, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Interests in the Company

Director’s name	Interests	Ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun ^(1 and 2)	Corporate interests	772,556,000 (L)	34.80
	Corporate interests	50,000,000 (S)	2.25
	Beneficial owner ⁽³⁾	900,000 (L)	0.04
			<hr/>
			37.09
Mr. Wu Suojun	Beneficial owner ⁽³⁾	1,267,000 (L)	0.06
Mr. Yan Ronghua	Beneficial owner ⁽³⁾	620,000 (L)	0.03
Mr. Jiang Guangqing	Beneficial owner ⁽³⁾	700,000 (L)	0.03

Notes:

As at 30 June 2016,

(1) Tiangong Holdings Company Limited (“THCL”) held 728,624,000 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 728,624,000 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.

Report of the Directors



(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 (%)
Mr. Zhu Xiaokun	THCL	Beneficial owner	44,511 (L)	89.02%
		Spousal interest (Note 1)	5,489 (L)	10.98%
Mr. Zhu Xiaokun (Note 2)	TG Tech	Beneficial owner	10,000,000 (L)	2.94%

Notes:

- (1) Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun held 5,489 shares in THCL. Mr. Zhu Xiaokun is deemed to be interested in such 5,489 shares in THCL.
- (2) Mr. Zhu Xiaokun is interested in the TG Tech shares to be subscribed under the Second Placing, which represented approximately 2.94% of the total issued TG Tech shares as at the date of this report.
- (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 2016, 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	Nature of interests and capacity	Ordinary shares	Approximate attributable interest (%)
Yu Yumei (Note 1)	Spousal interest (Note 2)	773,456,000 (L)	34.84
	Spousal interest (Note 2)	50,000,000 (S)	2.25
THCL (Note 1)	Beneficial owner	728,624,000 (L)	32.82
	Beneficial owner	50,000,000 (S)	2.25

Notes:

- (1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Madam Yu Yumei.
- (2) Madam Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures – (a) Interests in the Company".
- (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 purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole. The Scheme will provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants. 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. As at the date of this report, options in respect of 1,000 shares may be granted, representing approximately 0.00005% of the issued share capital of the Company as at the date of this report.
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 per share. Options for 3,080,000 shares under this grant lapsed on 1 July 2016.

Report of the Directors

On 17 January 2014, options entitled holders to subscribe for a total of 9,057,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. Among the total 9,057,000 shares options, 55,000 share options were not vested and the remaining share options were vested on 1 June 2014 and have an initial exercise price of HKD2.50 per share of USD0.0025 each and an exercise period ranging from 1 June 2014 to 31 May 2016. The closing price of the Company's shares at the date of grant was HKD2.48 per share of USD0.0025 each. Options for 9,002,000 shares under this grant lapsed during the period.

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

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

At 30 June 2016, 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 2016 was HKD0.475) under the Scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of USD0.0025 each of the Company.

	No. of options outstanding at the beginning of the financial period	No. of options granted during the financial period	No. of shares acquired on exercise of options during the financial period	No. of options cancelled during the financial period	No. of options lapsed during the financial period	No. of options outstanding at the end of the financial period	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*	Market value per share on exercise of options*
Directors											
Mr. Zhu Xiaokun	400,000	—	—	—	—	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	—
	500,000	—	—	—	—	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	—
Mr. Wu Suojun	400,000	—	—	—	—	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	—
	867,000	—	—	—	—	867,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	—
Mr. Yan Ronghua	320,000	—	—	—	—	320,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	—
	300,000	—	—	—	—	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	—
Mr. Jiang Guangqing	400,000	—	—	—	—	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	—
	300,000	—	—	—	—	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	—
Employees	1,560,000	—	—	—	—	1,560,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	—
Employees	9,002,000	—	—	—	(9,002,000)	—	17 January 2014	01 June 2014 to 31 May 2016	HKD2.50	HKD2.48	—
Employees	20,180,000	—	—	—	—	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	—
	34,284,000	—	—	—	(9,002,000)	25,227,000					

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



Report of the Directors

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 Securities

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

Corporate Governance

During the six months ended 30 June 2016, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

Audit Committee

The Audit Committee comprises three independent non-executive directors. The Audit Committee held a meeting on 24 August 2016 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2016 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

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" (the "Model Code") 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

25 August 2016

Independent Review Report



TO THE BOARD OF DIRECTORS OF TIANGONG INTERNATIONAL COMPANY LIMITED

*For the six months ended 30 June 2016
(Incorporated in the Cayman Islands with limited liability)*

Introduction

We have reviewed the interim financial report set out on pages 16 to 38 which comprises the consolidated statement of financial position of Tiangong International Company Limited as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated 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 2016 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

25 August 2016

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016 (unaudited)

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

The notes on pages 23 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.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016 (unaudited)



	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit for the period	26,864	60,055
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of subsidiaries, associates and joint ventures outside of the People's Republic of China ("the PRC")	72	(473)
Total comprehensive income for the period	26,936	59,582
Attributable to:		
Equity shareholders of the Company	25,785	60,074
Non-controlling interests	1,151	(492)
Total comprehensive income for the period	26,936	59,582

The notes on pages 23 to 38 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2016 (unaudited)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	9	3,247,098	3,243,542
Lease prepayments		73,498	74,372
Goodwill		21,959	21,959
Interest in associates		41,961	38,503
Interest in joint ventures		27,425	24,509
Other financial assets		10,000	10,000
Deferred tax assets		23,315	20,089
		3,445,256	3,432,974
Current assets			
Inventories	10	1,912,391	1,886,643
Trade and other receivables	11	1,782,913	1,895,480
Pledged deposits	12	488,230	445,389
Time deposits		400,000	400,000
Cash and cash equivalents	13	338,163	323,486
		4,921,697	4,950,998
Current liabilities			
Interest-bearing borrowings	14	3,018,539	2,580,896
Trade and other payables	15	1,195,398	1,347,335
Deferred income		5,097	1,162
		4,219,034	3,929,393
Net current assets			
		702,663	1,021,605
Total assets less current liabilities			
		4,147,919	4,454,579
Non-current liabilities			
Interest-bearing borrowings	14	128,675	485,978
Deferred income		41,965	48,168
Deferred tax liabilities		39,167	44,146
		209,807	578,292
Net assets			
		3,938,112	3,876,287

The notes on pages 23 to 38 form part of this interim financial report.

Consolidated Statement of Financial Position
As at 30 June 2016 (unaudited)



	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Capital and reserves			
Share capital		40,167	40,167
Reserves		3,847,474	3,836,120
Total equity attributable to equity shareholders of the Company		3,887,641	3,876,287
Non-controlling interests	17	50,471	—
Total equity		3,938,112	3,876,287

Approved and authorised for issue by the board of directors on 25 August 2016.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on pages 23 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016 (unaudited)

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Merger reserve	Exchange reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	40,167	1,590,760	492	74,367	91,925	(6,472)	519,106	1,617,580	3,927,925	1,896	3,929,821
Changes in equity for the six months ended 30 June 2015											
Profit for the period	—	—	—	—	—	—	—	60,547	60,547	(492)	60,055
Other comprehensive income	—	—	—	—	—	(473)	—	—	(473)	—	(473)
Total comprehensive income	—	—	—	—	—	(473)	—	60,547	60,074	(492)	59,582
Dividends approved in respect of the previous year	—	—	—	—	—	—	—	(92,799)	(92,799)	—	(92,799)
Balance at 30 June 2015 and 1 July 2015	40,167	1,590,760	492	74,367	91,925	(6,945)	519,106	1,585,328	3,895,200	1,404	3,896,604
Changes in equity for the six months ended 31 December 2015											
Profit for the period	—	—	—	—	—	—	—	12,076	12,076	—	12,076
Other comprehensive income	—	—	—	—	—	(27,314)	—	—	(27,314)	—	(27,314)
Total comprehensive income	—	—	—	—	—	(27,314)	—	12,076	(15,238)	—	(15,238)
Dividends approved in respect of the previous year	—	—	—	—	—	—	—	(3,603)	(3,603)	—	(3,603)
Transfer to reserve	—	—	—	—	—	—	11,301	(11,301)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	(72)	—	(72)	(1,404)	(1,476)
Balance at 31 December 2015	40,167	1,590,760	492	74,367	91,925	(34,259)	530,335	1,582,500	3,876,287	—	3,876,287

The notes on pages 23 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016 (unaudited)



		Attributable to equity shareholders of the Company										
		Share capital	Share premium	Capital redemption reserve	Capital reserve	Merger reserve	Exchange reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2016	40,167	1,590,760	492	74,367	91,925	(34,259)	530,335	1,582,500	3,876,287	—	3,876,287
	Changes in equity for the six months ended 30 June 2016											
	Profit for the period	—	—	—	—	—	—	—	25,713	25,713	1,151	26,864
	Other comprehensive income	—	—	—	—	—	72	—	—	72	—	72
	Total comprehensive income	—	—	—	—	—	72	—	25,713	25,785	1,151	26,936
	Dividends approved in respect of the previous year	—	—	—	—	—	—	—	(14,431)	(14,431)	—	(14,431)
	Capital contribution from investor	—	—	—	—	—	—	—	—	—	49,320	49,320
	Forfeit of share options	—	—	—	(3,772)	—	—	—	3,772	—	—	—
	Balance at 30 June 2016	40,167	1,590,760	492	70,595	91,925	(34,187)	530,335	1,597,554	3,887,641	50,471	3,938,112

The notes on pages 23 to 38 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Operating activities		
Cash generated from operations	133,046	56,515
Tax paid	(21,248)	(68,657)
Net cash generated from/(used in) operating activities	111,798	(12,142)
Investing activities		
Payment for the purchase of property, plant and equipment	(132,048)	(177,177)
Other cash flows arising from investing activities	(25,274)	(40,089)
Net cash used in investing activities	(157,322)	(217,266)
Financing activities		
Proceeds from new interest-bearing borrowings	2,164,574	2,399,928
Repayment of interest-bearing borrowings	(2,084,234)	(2,187,867)
Interest paid	(69,311)	(85,205)
Capital contribution from a non-controlling shareholder	49,600	—
Net cash generated from financing activities	60,629	126,856
Net increase/(decrease) in cash and cash equivalents	15,105	(102,552)
Cash and cash equivalents at 1 January	323,486	181,373
Effect of foreign exchange rates changes	(428)	(45)
Cash and cash equivalents at 30 June	338,163	78,776

The notes on pages 23 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 25 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 15.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

2. Changes in accounting policies

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

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

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

3. Revenue and segment reporting

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

The Group has 5 reportable segments, as described below, which are the Group’s product divisions. For each of the product divisions the Chairman (the chief operating decision maker) reviews internal management reports on at least a monthly basis. No operating segments have been aggregated to form the following reportable segments. The operations in each of the Group’s reportable segments can be described as follows:

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

(a) Segment results, assets and liabilities

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

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

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

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

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



3. Revenue and segment reporting (Continued)

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

Six months ended 30 June 2016						
	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	206,838	237,519	534,209	98,416	491,252	1,568,234
Inter-segment revenue	76,174	—	—	—	—	76,174
Reportable segment revenue	283,012	237,519	534,209	98,416	491,252	1,644,408
Reportable segment profit (adjusted EBIT)	31,542	33,973	79,300	8,031	936	153,782
As at 30 June 2016						
	HSS 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	2,148,240	1,337,906	3,232,301	284,785	11	7,003,243
Reportable segment liabilities	471,687	171,531	539,710	13,977	—	1,196,905

Notes to the Unaudited Interim Financial Report

3. Revenue and segment reporting (Continued)

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

	Six months ended 30 June 2015					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Revenue from external customers	363,112	304,465	530,235	97,353	562,374	1,857,539
Inter-segment revenue	119,677	—	—	—	—	119,677
Reportable segment revenue	482,789	304,465	530,235	97,353	562,374	1,977,216
Reportable segment profit (adjusted EBIT)	58,786	37,471	79,190	12,299	433	188,179
	As at 31 December 2015					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	2,271,620	1,330,523	3,153,877	334,402	1,953	7,092,375
Reportable segment liabilities	596,742	207,943	543,883	19,861	—	1,368,429



3. Revenue and segment reporting (Continued)

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

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

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

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

3. Revenue and segment reporting (Continued)

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

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

(c) Geographical information

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

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

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



4. Other income

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

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

5. Other expenses

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

Notes to the Unaudited Interim Financial Report

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	
		2016 RMB'000	2015 RMB'000
Interest income		(5,533)	(4,103)
Finance income		(5,533)	(4,103)
Interest on bank loans		66,275	86,094
Less: interest expense capitalised into property, plant and equipment under construction	9	(6,468)	(13,800)
Finance expenses		59,807	72,294
Net finance costs		54,274	68,191

(b) Other items

	Note	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Cost of inventories*		1,377,160	1,631,882
Depreciation		103,474	95,619
Amortisation of lease prepayments		874	802
Provision for write-down of inventories	10	924	4,990

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



7. Income tax expense

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

- (a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.
- (b) The provision for PRC income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. Jiangsu Tiangong Tools Company Limited, Tiangong Aihe Company Limited and Jiangsu Tiangong Technology Company Limited ("TG Tech") are subject to a preferential income tax rate of 15% in 2016 available to enterprises which qualify as a High and New Technology Enterprise (2015: 15%).

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

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

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

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB25,713,000 (six months ended 30 June 2015: RMB60,547,000) and the weighted average number of ordinary shares of 2,220,080,000 (six months ended 30 June 2015: 2,220,204,127 (including shares to be issued under share options)) in issue during the six months ended 30 June 2016 after taking into account the potential dilution effect of share options.

9. Property, plant and equipment

During the six months ended 30 June 2016, the group acquired items of plant and machinery with a cost of RMB113,649,000 (six months ended 30 June 2015: RMB176,547,000), excluding capitalised borrowing costs of RMB6,468,000 (six months ended 30 June 2015: RMB13,800,000). There were no material disposals of property, plants and equipment for the periods presented.

10. Inventories

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Raw materials	28,441	23,151
Work in progress	947,083	890,092
Finished goods	936,867	973,400
	1,912,391	1,886,643

During the six months ended 30 June 2016, the Group recognised a write-down of RMB924,000 (six months ended 30 June 2015: a write-down of RMB4,990,000) against those inventories with net realisable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.



11. Trade and other receivables

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

Trade receivables of RMB140,333,000 (2015: RMB91,509,000) have been pledged to a bank as security for the Group's bank loans as disclosed in note 14. As at 30 June 2016, no bills receivable were pledged (2015: Nil).

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 3 months	1,182,137	1,246,347
4 to 6 months	253,376	279,986
7 to 12 months	75,637	76,963
1 to 2 years	51,186	54,985
Over 2 years	8,019	11,877
	1,570,355	1,670,158

11. Trade and other receivables (Continued)

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

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

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

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

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

12. Pledged deposits

Bank deposits of RMB488,230,000 (2015: RMB445,389,000) have been pledged to banks as security for the bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

13. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2016 are cash at bank and in hand.



14. Interest-bearing borrowings

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Current			
Secured bank loans	(i)	126,170	206,287
Unsecured bank loans	(ii)	2,397,623	2,117,856
Current portion of non-current unsecured bank loans	(iii)	494,746	256,753
		3,018,539	2,580,896
Non-current			
Unsecured bank loans	(iii)	623,421	742,731
Less: Current portion of non-current secured bank loans	(iii)	(494,746)	(256,753)
		128,675	485,978
		3,147,214	3,066,874

- (i) The current bank loans were secured by certain trade receivables and sales contracts at interest rates ranging from 3.20% to 3.37% per annum (2015: 0.76% to 5.51%) and were repayable within one year.
- (ii) Current unsecured bank loans carried interest at annual rates ranging from 0.70% to 5.33% (2015: 1.25% to 6.60%) and were repayable within one year.
- (iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 6.00% (2015: 2.34% 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 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	494,746	256,753
Over 1 year but within 2 years	128,675	485,978
	623,421	742,731

As at 30 June 2016, the Group's banking facility with one bank is subject to the fulfilment of covenant relating to the Group's consolidated earnings before interest, tax, depreciation and amortisation to the consolidated interest expenses, as are commonly found in lending arrangements with financial institutions. As at 30 June 2016, none of the covenants relating to drawn down facilities had been breached (2015: None).

Notes to the Unaudited Interim Financial Report

15. Trade and other payables

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 3 months	652,449	711,435
4 to 6 months	287,949	376,429
7 to 12 months	24,595	31,251
1 to 2 years	28,052	56,614
Over 2 years	17,538	15,882
Total trade creditors and bills payable	1,010,583	1,191,611
Non-trade payables and accrued expenses	184,815	155,724
	1,195,398	1,347,335

16. Capital, reserves and dividends

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

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

17. Non-controlling interests

In March 2016, TG Tech, previously wholly owned subsidiary of the Group, introduced a new investor, Nanjing Iron & Steel Co., Ltd., who acquired 11.76% of TG Tech's share capital with the consideration of RMB49,320,000 duly paid.

18. Fair value measurement of financial instruments

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 30 June 2016.



19. 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	
	2016 RMB'000	2015 RMB'000
Lease expense to:		
Controlling shareholder’s company	288	500
Sales of goods to:		
Joint ventures	149,718	125,243
Associates	21,066	13,739
Freight expense from:		
Associates	1,100	5,741
Lease income from:		
Associates	—	25
Lending to:		
Joint ventures	2,670	—

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 2016 RMB'000	At 31 December 2015 RMB'000
Joint ventures	108,861	151,775
Associates	17,723	8,012
	126,584	159,787

(c) Amounts due to related parties

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Associates	5,409	5,033
Controlling shareholder’s company	1,100	500
	6,509	5,533

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Contracted for	36,071	45,449
Authorised but not contracted for	419,452	422,496
	455,523	467,945

(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 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	3,384	2,198
After 1 year but within 5 years	2,500	—
	5,884	2,198

21. Non-adjusting events after reporting period

- a) On 6 June 2016, TG Tech entered into a subscription agreement with Nanjing Iron & Steel Co., Ltd., TG Tech's directors and core management for a subscription, subject to certain conditions and adjustments (if applicable), of 65 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to approximately RMB80.6 million (the "Placing"). Upon the completion of the Placing, the equity interests held by the Company in TG Tech will be diluted by approximately 14.17% from 88.24% to 74.07% of the enlarged share capital of TG Tech. TG Tech will remain as a subsidiary of the Group after the completion of the Placing. As of the date of this report, the Placing has not been completed.
- b) On 22 July 2016, the Company granted an aggregate of 18,970,000 share options to directors and 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 January 2017 to 31 December 2017 at an exercise price of HKD0.60 per share. The amount payable on acceptance per grant is HKD1.00. Each share option was valued at approximately HKD0.1383 by an external appraiser.