Tiangong International Company Limited
天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Six months ended 30 June 2014	Six months ended 30 June 2013	**Change**
Revenue	**2,668.2**	1,652.1	61.5%
Gross profit	**478.0**	438.6	9.0%
Profit attributable to equity shareholders of the Company	**264.7**	245.8	7.7%
Basic earnings per share *(RMB)*	**0.136**	0.127	7.1%
Gross profit margin	***17.9%***	*26.5%*	*(8.6 ppt)*
Net profit margin	***9.9%***	*14.9%*	*(5 ppt)*

	At 30 June 2014	At 31 December 2013	**Change**
Net Assets	**3,357.5**	3,178.5	5.6%
Net Debt(1)	**1,914.3**	1,834.5	4.3%
Net Gearing(2)	***57.0%***	*57.7%*	*(0.7 ppt)*

Notes:

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

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

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 and the consolidated statement of financial position of the Group as at 30 June 2014 which have been reviewed by the Company's auditor, KPMG, and the Audit Committee of the Company, together with the comparative figures for the same period of 2013 as follows:

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
	Note	***RMB'000***	*RMB'000*
Revenue	4	**2,668,215**	1,652,105
Cost of sales		**(2,190,264)**	(1,213,491)
Gross profit		**477,951**	438,614
Other income	5	**27,411**	36,442
Distribution expenses		**(31,670)**	(25,277)
Administrative expenses		**(57,219)**	(50,984)
Other expenses	6	**(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	7(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	7	**314,197**	322,034
Income tax expense	8	**(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)*	9		
Basic		**0.136**	0.127
Diluted		**0.136**	0.126

	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 overseas 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

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		**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		**1,879,323**	1,978,542
Trade and other receivables	10	**2,220,617**	1,653,855
Pledged deposits		**413,650**	250,236
Time deposits		**418,600**	553,500
Cash and cash equivalents		**162,608**	88,406
		5,094,798	4,524,539
Current liabilities			
Interest-bearing borrowings		**2,210,381**	2,359,182
Trade and other payables	11	**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

	At 30 June 2014 *RMB'000*	At 31 December 2013 *RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**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
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

1. REPORTING ENTITY

The Company was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

The interim financial report of the Company as at and for the six months ended 30 June 2014 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

2. BASIS OF PREPARATION

This interim financial report of 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 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and 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 in the interim financial report.

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.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued and 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 cash generating unit 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.

4. REVENUE AND SEGMENT REPORTING

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

The Group has 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 terephthalic 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.

	Six months ended 30 June 2014					
	HSS	**HSS cutting tools**	**DS**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	**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	**HSS cutting tools**	**DS**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	**2,305,793**	**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**

	Six months ended 30 June 2013					
	HSS	HSS cutting tools	DS	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	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	HSS cutting tools	DS	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	2,015,344	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

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

	Six months ended 30 June	
	2014	2013
Revenue	***RMB'000***	*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

	Six months ended 30 June	
	2014	2013
Profit	***RMB'000***	*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

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

5. 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 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.

6. 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

7. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
(a) Net finance costs		
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	**(12,119)**	(11,501)
Finance expenses	**71,493**	63,023
Net finance costs	**67,365**	60,886

(b) Other items

	Six months ended 30 June	
	2014	2013
	RMB'000	*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	**5,829**	(11,756)

* *Cost of inventories include 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.*

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	*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 Company sustained a loss for taxation purpose during both the current period and the prior period.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of 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.

10. 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 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.

11. 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

12. 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	2013
	RMB'000	*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.

(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 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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
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

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. Die steel is mainly used in die and mould casting as well as machining processing. Many different manufacturing industries require moulds, including automotive, high-speed railway construction, aviation and plastic product manufacturing.

In 1H2014, revenue generated from die steel 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 high speed steel. 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 continues 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 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
Die steel	**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%

Die steel

The gross margin of die steel 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 was 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 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 in 2013 to RMB1,950,083,000 as at the period end 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 receivables 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 has 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 has 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.

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).

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "Scheme") on 7 July 2007. On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the directors and employees of the Company in respect of their services to the Group. These share options had vested on 1 July 2012 and have an initial exercise price of HKD5.10 per share of USD0.01 each and an exercise period ranging from 1 July 2012 to 30 June 2016. The closing price of the Company's shares at the date of grant was HKD5.10 per share of USD0.01 each. Due to the implementation of share subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the share option scheme was adjusted to 19,880,000 shares 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 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.

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, had 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.

APPRECIATION

The board of Directors would like to take this opportunity to express gratitude to our shareholders, customers, the management and employees for their unreserved support to the Group.

By Order of the Board
Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 15 August 2014

As at the date of this announcement, the directors of the Company are:

Executive Directors: ZHU Xiaokun, YAN Ronghua, WU Suojun and JIANG Guangqing

Independent non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis and YIN Shuming

* *For identification purpose only*