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 2015

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Six months ended 30 June 2015	Six months ended 30 June 2014	**Change**
Revenue	**1,857.5**	2,668.2	(30.4)%
Gross profit	**225.7**	478.0	(52.8)%
Profit attributable to equity shareholders of the Company	**60.5**	264.7	(77.1)%
Basic earnings per share *(RMB)*	**0.027**	0.136	(80.1)%
Diluted earnings per share *(RMB)*	**0.027**	0.136	(80.1)%
Gross profit margin	***12.1%***	*17.9%*	*(5.8 ppt)*
Net profit margin	***3.2%***	*9.9%*	*(6.7 ppt)*

	At 30 June 2015	At 31 December 2014	**Change**
Net Assets	**3,896.6**	3,929.8	(0.8)%
Net Debt(1)	**2,116.6**	1,847.2	14.6%
Net Gearing(2)	***54.3%***	*47.0%*	*7.3 ppt*

Notes:

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

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

The Board 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 (collectively, the "Group") for the six months ended 30 June 2015 and the consolidated statement of financial position of the Group as at 30 June 2015 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 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015 (unaudited)

		Six months ended 30 June	
		2015	2014
	Note	***RMB'000***	*RMB'000*
Revenue	4	**1,857,539**	2,668,215
Cost of sales		**(1,631,882)**	(2,190,264)
Gross profit		**225,657**	477,951
Other income	5	**11,972**	27,411
Distribution expenses		**(37,478)**	(31,670)
Administrative expenses		**(58,424)**	(57,219)
Other expenses	6	**(8,685)**	(42,462)
Profit from operations		**133,042**	374,011
Finance income		**4,103**	4,128
Finance expenses		**(72,294)**	(71,493)
Net finance costs	7(a)	**(68,191)**	(67,365)
Share of profits/(losses) of associates		**2,153**	(1,739)
Share of profits of joint ventures		**6,452**	9,290
Profit before income tax	7	**73,456**	314,197
Income tax expense	8	**(13,401)**	(49,654)
Profit for the period		**60,055**	264,543
Attributable to:			
Equity shareholders of the Company		**60,547**	264,742
Non-controlling interests		**(492)**	(199)
Profit for the period		**60,055**	264,543
Earnings per share *(RMB)*	9		
Basic		**0.027**	0.136
Diluted		**0.027**	0.136

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

For the six months ended 30 June 2015 (unaudited)

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Profit for the period	**60,055**	264,543
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")	**(473)**	254
Total comprehensive income for the period	**59,582**	264,797
Attributable to:		
Equity shareholders of the Company	**60,074**	264,996
Non-controlling interests	**(492)**	(199)
Total comprehensive income for the period	**59,582**	264,797

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015 (unaudited)

	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Non-current assets			
Property, plant and equipment		**3,095,428**	2,998,727
Lease prepayments		**75,110**	75,512
Goodwill		**22,086**	22,086
Interest in associates		**36,719**	33,997
Interest in joint ventures		**18,455**	12,998
Other financial assets		**10,000**	10,000
Deferred tax assets		**19,076**	15,337
		3,276,874	3,168,657
Current assets			
Inventories		**1,936,306**	1,952,781
Trade and other receivables	10	**2,412,625**	2,114,526
Pledged deposits		**469,119**	404,400
Time deposits		**523,600**	543,100
Cash and cash equivalents		**78,776**	181,373
		5,420,426	5,196,180
Current liabilities			
Interest-bearing borrowings		**2,911,816**	2,342,903
Trade and other payables	11	**1,546,626**	1,340,910
Current taxation		**5,870**	60,240
Deferred income		**1,162**	1,162
		4,465,474	3,745,215
Net current assets		**954,952**	1,450,965
Total assets less current liabilities		**4,231,826**	4,619,622
Non-current liabilities			
Interest-bearing borrowings		**276,297**	633,149
Deferred income		**15,963**	16,543
Deferred tax liabilities		**42,962**	40,109
		335,222	689,801
Net assets		**3,896,604**	3,929,821

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 30 June 2015 (unaudited)

	At 30 June 2015 *RMB'000*	At 31 December 2014 *RMB'000*
Capital and reserves		
Share capital	**40,167**	40,167
Reserves	**3,855,033**	3,887,758
Total equity attributable to equity shareholders of the Company	**3,895,200**	3,927,925
Non-controlling interests	**1,404**	1,896
Total equity	**3,896,604**	3,929,821

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 2015 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 26 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes and adoptions that are expected to be reflected in the 2015 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 reported 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 2014 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 2014 that is included in the interim financial report as comparative information does not constitute the Company's 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 and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3. CHANGES IN ACCOUNTING POLICIES

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

- *Annual Improvements to IFRS 2010–2012 Cycle*
- *Annual Improvements to IFRS 2011–2013 Cycle*

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

4. REVENUE AND SEGMENT REPORTING

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

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

— *HSS* The HSS segment manufactures and sells high speed steel for the steel industry.

— *HSS cutting tools* The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.

— *DS* The DS segment manufactures and sells die steel for the steel industry.

— *Titanium alloy* The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.

— *Trading of goods* The trading of goods segment sells billet steel and screw steel.

(a) Segment results, assets and liabilities

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

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

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

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

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

	Six months ended 30 June 2015					
	HSS	**HSS cutting tools**	**DS**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	**363,112**	**304,465**	**530,235**	**97,353**	**562,374**	**1,857,539**
Inter-segment revenue	**119,677**	**—**	**—**	**—**	**—**	**119,677**
Reportable segment revenue	**482,789**	**304,465**	**530,235**	**97,353**	**562,374**	**1,977,216**
Reportable segment profit (adjusted EBIT)	**58,786**	**37,471**	**79,190**	**12,299**	**433**	**188,179**

	As at 30 June 2015					
	HSS	**HSS cutting tools**	**DS**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment assets	**2,420,982**	**1,442,437**	**3,246,304**	**380,035**	**22,813**	**7,512,571**
Reportable segment liabilities	**611,686**	**265,833**	**515,311**	**50,377**	**—**	**1,443,207**

	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 31 December 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	2,383,834	1,233,701	3,177,264	305,367	24,499	7,125,665
Reportable segment liabilities	567,810	244,634	492,218	27,725	—	1,332,387

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

	Six months ended 30 June	
	2015	2014
Revenue	***RMB'000***	*RMB'000*
Reportable segment revenue	**1,977,216**	2,761,009
Elimination of inter-segment revenue	**(119,677)**	(92,794)
Consolidated revenue	**1,857,539**	2,668,215

Profit	Six months ended 30 June 2015 RMB'000	2014 RMB'000
Reportable segment profit	**188,179**	446,281
Net finance costs	**(68,191)**	(67,365)
Share of profits/(losses) of associates	**2,153**	(1,739)
Share of profits of joint ventures	**6,452**	9,290
Other unallocated head office and corporate expenses	**(55,137)**	(72,270)
Consolidated profit before income tax	**73,456**	314,197

Assets	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Reportable segment assets	**7,512,571**	7,125,665
Interest in associates	**36,719**	33,997
Interest in joint ventures	**18,455**	12,998
Other financial assets	**10,000**	10,000
Deferred tax assets	**19,076**	15,337
Pledged deposits	**469,119**	404,400
Time deposits	**523,600**	543,100
Cash and cash equivalents	**78,776**	181,373
Other unallocated head office and corporate assets	**28,984**	37,967
Consolidated total assets	**8,697,300**	**8,364,837**

Liabilities	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Reportable segment liabilities	**1,443,207**	1,332,387
Interest-bearing borrowings	**3,188,113**	2,976,052
Current taxation	**5,870**	60,240
Deferred tax liabilities	**42,962**	40,109
Other unallocated head office and corporate liabilities	**120,544**	26,228
Consolidated total liabilities	**4,800,696**	4,435,106

(c) Geographical information

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

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

	Six months ended 30 June	
	2015	2014
Revenue	***RMB'000***	*RMB'000*
The PRC	**1,242,187**	2,102,874
North America	**217,622**	212,679
Europe	**212,604**	210,309
Asia (other than the PRC)	**162,504**	125,511
Others	**22,622**	16,842
Total	**1,857,539**	2,668,215

5. OTHER INCOME

		Six months ended 30 June	
		2015	2014
		RMB'000	*RMB'000*
Government grants	(i)	**581**	14,883
Sales of scrap materials		**5,625**	9,667
Dividend income from unlisted securities		**800**	800
Net foreign exchange gain		**4,844**	—
Others		**122**	2,061
		11,972	27,411

(i) Jiangsu Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, recognised amortisation of government grants related to assets of RMB581,000 (six months ended 30 June 2014: RMB581,000) during the six months ended 30 June 2015. TG Tools did not receive any unconditional grants from the local government during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB14,302,000).

6. OTHER EXPENSES

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Provision of impairment losses for doubtful trade receivables	**7,630**	39,857
Foreign exchange loss	**—**	1,343
Net loss on disposal of property, plant and equipment	**457**	181
Others	**598**	1,081
	8,685	42,462

7. PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Interest income	**(4,103)**	(4,128)
Finance income	**(4,103)**	(4,128)
Interest on bank loans	**86,094**	83,612
Less: interest expense capitalised into property, plant and equipment under construction	**(13,800)**	(12,119)
Finance expenses	**72,294**	71,493
Net finance costs	**68,191**	67,365

(b) Other items

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Cost of inventories*	**1,631,882**	2,190,264
Depreciation	**95,619**	83,694
Amortisation of lease prepayments	**802**	791
Provision for write-down of inventories	**4,990**	5,829

* Cost of inventories includes RMB96,817,000 (six months ended 30 June 2014: RMB85,384,000) relating to depreciation expenses and provision 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	
	2015	2014
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax — corporation tax	**13,382**	46,599
Provision for Hong Kong profits tax	**905**	—
	14,287	46,599
Deferred tax		
Origination and reversal of temporary differences	**(886)**	3,055
	13,401	49,654

(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 2015 available to enterprises which qualify as a High and New Technology Enterprise (2014:15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2014: 25%).

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

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 RMB60,547,000 (six months ended 30 June 2014: RMB264,742,000) and the weighted average of 2,220,080,000 ordinary shares in issue during the interim period (six months ended 30 June 2014: 1,946,758,889).

(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 RMB60,547,000 (six months ended 30 June 2014: RMB264,742,000) and the weighted average number of potential ordinary shares of 2,220,204,127 (six months ended 30 June 2014: 1,947,732,865) for the six months ended 30 June 2015 after taking into account the potential dilutive effect of the share options.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Trade receivables	**1,545,433**	1,564,099
Bills receivable	**585,140**	488,441
Less: provision for doubtful debts	**(74,050)**	(66,420)
Net trade and bills receivable	**2,056,523**	1,986,120
Prepayments	**306,273**	90,450
Non-trade receivables	**55,771**	44,405
Less: impairment loss on non-trade receivables	**(5,942)**	(6,449)
	2,412,625	2,114,526

Trade receivables of RMB190,708,000 (2014: RMB285,273,000) have been pledged to a bank as security for the Group's bank loans. As at 30 June 2015, no bills receivable were pledged (2014: 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 2015 RMB'000	At 31 December 2014 RMB'000
Within 3 months	**1,447,270**	1,532,947
4 to 6 months	**362,702**	321,869
7 to 12 months	**199,522**	94,236
1 to 2 years	**42,520**	24,742
Over 2 years	**4,509**	12,326
	2,056,523	1,986,120

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 2015	At 31 December 2014
	RMB'000	*RMB'000*
Within 3 months	**1,131,995**	848,182
4 to 6 months	**78,801**	263,943
7 to 12 months	**57,306**	41,181
1 to 2 years	**19,377**	16,986
Over 2 years	**15,896**	14,942
Total trade creditors and bills payable	**1,303,375**	1,185,234
Non-trade payables and accrued expenses	**150,452**	155,676
Dividends payable	**92,799**	—
	1,546,626	1,340,910

12. CAPITAL, RESERVES AND DIVIDENDS

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

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0418 per share (six months ended 30 June 2014: RMB0.0494 per share)	**92,799**	96,192

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

	For the six months ended 30 June					
	2015		2014		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Die steel	**530,235**	**28.5**	699,073	26.2	(168,838)	(24.2)
High Speed Steel ("HSS")	**363,112**	**19.6**	700,890	26.3	(337,778)	(48.2)
HSS cutting tools	**304,465**	**16.4**	307,327	11.5	(2,862)	(0.9)
Titanium alloy	**97,353**	**5.2**	49,346	1.8	48,007	97.3
Trading of goods	**562,374**	**30.3**	911,579	34.2	(349,205)	(38.3)
	1,857,539	**100.0**	2,668,215	100.0	(810,676)	(30.4)

Tiangong International Company Limited (the "Company") and its subsidiaries (collectively the "Group") encountered challenges in the drawbacks in domestic market in the first half of 2015 due to the slowdown on China's economic growth, leading to the decline in domestic demand and decrease in selling price within the Group's traditional core segment, Die steel and HSS. To supplement the low demand in the domestic market, the Group placed more focus on export sales to overseas markets in the traditional core segment. At the same time, the Group continued to develop a broader range of titanium alloy products which led to a satisfactory result in this rapid growing segment.

Die steel — accounted for approximately 29% of the Group's revenue in 1H2015

	For the six months ended 30 June					
	2015		2014		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**215,791**	**40.7**	404,876	57.9	(189,085)	(46.7)
Export	**314,444**	**59.3**	294,197	42.1	20,247	6.9
	530,235	**100.0**	699,073	100.0	(168,838)	(24.2)

Die steel ("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 1H2015, revenue generated from DS decreased by approximately 24.2% to RMB530,235,000 (1H2014: RMB699,073,000). The slowdown in China's economic growth led to a decline in demand and decrease in average selling price of DS. The effect accounted for a decrease in the Group's domestic revenue by 46.7% to RMB215,791,000 (1H2014: RMB404,876,000). With the decline in demand in domestic market, the Group continued to expand overseas markets. The Group's export revenue was all denominated in foreign currencies. Due to the depreciation in Euro, the increase in the Group's export revenue was partially offset, resulting a net increase of 6.9% to RMB314,444,000 (1H2014: RMB294,197,000).

HSS — accounted for approximately 20% of the Group's revenue in 1H2015

	For the six months ended 30 June					
	2015		2014		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**261,082**	**71.9**	608,322	86.8	(347,240)	(57.1)
Export	**102,030**	**28.1**	92,568	13.2	9,462	10.2
	363,112	**100.0**	700,890	100.0	(337,778)	(48.2)

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.

Similar to DS, HSS experienced a decline in demand and average selling price in domestic market. The domestic revenue decreased by 57.1% to RMB261,082,000 (1H2014: RMB608,322,000). On the overseas markets, we recorded an increase in export volume of 588 tons during the period. However, the increase in export volume was offset by the depreciation in Euro, resulting a net increase in export revenue by 10.2% to RMB102,030,000 (1H2014: RMB92,568,000).

HSS cutting tools — accounted for approximately 16% of the Group's revenue in 1H2015

	For the six months ended 30 June					
	2015		2014		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic	**110,591**	**36.3**	141,107	45.9	(30,516)	(21.6)
Export	**193,874**	**63.7**	166,220	54.1	27,654	16.6
	304,465	**100.0**	307,327	100.0	(2,862)	(0.9)

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 revenue generated from HSS cutting tools was relatively stable with a decrease of 0.9% to RMB304,465,000 (1H2014: RMB307,327,000). The significant decrease in the average selling price in domestic market resulted a decrease in domestic revenue by 21.6% to RMB110,591,000 (1H2014: RMB141,107,000). On the other hand, the significant increase in the sales volume in overseas market contributed an increase in export revenue by 16.6% to RMB193,874,000 (1H2014: RMB166,220,000).

Titanium alloy — increased by 97% to RMB97,353,000 in 1H2015 (1H2014: RMB49,346,000)

Titanium alloy segment has been a rapid developing 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 achieved a satisfactory result in this segment by taking the advantage of the increased demand and actively developing a broader range of products of titanium alloy. The increase in the result of this segment is mainly due to the increase in sales volume of titanium alloy products.

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 spend less focus in this segment in the future.

Outlook

During the period, the Group's traditional core segment experienced the decline in demand and decrease in average selling price in domestic markets. More focus is placed in the overseas market. In the second half of 2015, given that the average selling price in the traditional core segment has already stayed low for a long period of time, we expect that the average selling price has bottomed out and will be stabilized. The Group will focus on improving the quality of the products and prepare to catch up the rebound in domestic demand. At the same time, the Group will still continue the expansion in the overseas markets by finding the appropriate trading partners.

Titanium alloy segment has been identified as a star business among the Group's various business. The Group is confident that the extensive application of titanium alloy in various industries will drive up the demand of titanium alloy in the near future. The Group will continue to focus on the research and development in the production process of titanium alloy pipes and flat sheets. By streamlining the whole production process, we target to increase the production capacity and reduce the production cost.

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 77.1% from RMB264,742,000 in the first half of 2014 to RMB60,547,000 in the first half of 2015. The decrease was mainly attributable to the (i) slowdown on China's economic growth during the period, leading to the decline in demand and decrease in average selling price of the Group's products; and (ii) the depreciation of Euro which affect the export revenue and profit of the Group as the prices of products exported to European countries are denominated in Euro.

Revenue

Revenue of the Group for the first half of 2015 totalled RMB1,857,539,000, representing a significant decrease of approximately 30% when compared with RMB2,668,215,000 in the first half of 2014. The decrease was mainly attributable to the decrease in revenue of the Group's traditional core segments, DS and HSS.

Cost of sales

The Group's cost of sales decreased from RMB2,190,264,000 for the first half of 2014 to RMB1,631,882,000 for the first half of 2015, representing a decrease of approximately 25.5%. The decrease was mainly due to the decrease in sales during the period.

Gross margin

For the first half of 2015, the gross margin was approximately 12.1% (1H2014: 17.9%). Set out below is the gross margin for our five segments for the first half of 2014 and 2015:

	For the six months ended 30 June	
	2015	2014
DS	**19.0%**	32.8%
HSS	**18.0%**	27.6%
HSS cutting tools	**15.5%**	15.6%
Titanium alloy	**12.6%**	14.9%
Trading of goods	**0.08%**	0.04%

DS

The gross margin of DS decreased from 32.8% in the first half of 2014 to 19.0% in the first half of 2015. The decrease was mainly due to the decrease in average selling price of individual products.

HSS

The HSS gross margin decreased from 27.6% in the first half of 2014 to 18.0% in the same period in 2015. The decrease was mainly due to the decrease in average selling price of individual products.

HSS cutting tools

In the first half of 2015, the gross margin of HSS cutting tools was relatively stable when compared with that in the first half of 2014, staying at 15.5% (1H2014: 15.6%).

Titanium alloy

The gross margin of titanium alloy decreased to 12.6% from 14.9% as a result of the increase in price of the major raw material, sponge titanium, in the first half of 2015.

Other income

The Group's other income decreased from RMB27,411,000 in the first half of 2014 to RMB11,972,000 in the first half of 2015 was mainly attributable to the decrease in government grants received from the government.

Distribution expenses

The Group's distribution expenses were RMB37,478,000 (1H2014: RMB31,670,000), representing an increase of approximately 18.3%. The increase was mainly attributable to the increase in transportation expenses as a result of the increase in export sales volume. For the first half of 2015, the distribution expenses as a percentage of revenue was 2.0% (1H2014: 1.2%).

Administrative expenses

For the first half of 2015, the Group's administrative expenses increased to RMB58,424,000 (1H2014: RMB57,210,000). The increase was mainly due to the increase in bank charges incurred for export sales by the Group. For the first half of 2015, the administrative expenses as a percentage of revenue was 3.1% (1H2014: 2.1%).

Net finance cost

The Group's finance income remained stable at RMB4,103,000 for the first half of 2015 when comparing to RMB4,128,000 for the first half of 2014. The Group's finance expenses increased from RMB71,493,000 for the first half of 2014 to RMB72,294,000 for the first half of 2015, which was attributable to the slight increase in the interest-bearing borrowings in 2015 compared with the same period last year.

Income tax expense

The Group's income tax expense decreased from RMB49,654,000 in the first half of 2014 to RMB13,401,000 in the first half of 2015. Such decrease was mainly due to the decreased in 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 77.3% to RMB60,055,000 for the first half of 2015 from RMB264,543,000 for the first half of 2014. The Group's net profit margin decreased from 9.9% in the first half of 2014 to 3.2% in the same period of 2015 mainly due to the decrease of gross margin and demand of the Group's traditional core products DS and HSS.

Profit attributable to equity shareholders of the Company

For the first half of 2015, profit attributable to equity shareholders of the Company was RMB60,547,000 (1H2014: RMB264,792,000), representing a decrease of 77.1%.

Trade and bills receivable

The net trade and bills receivable increased from RMB1,986,120,000 as at 31 December 2014 to RMB2,056,523,000 as at 30 June 2015 which was mainly due to the delay of settlement from customers suffering tight cash flow under market depression although great effort has been made to control credit risk and accelerate collection of receivables. The provision for doubtful debts of RMB74,050,000 (2014: RMB66,420,000) accounted for 3.5% (2014: 3.2%) of the trade and bills receivables.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the Group's current assets mainly included cash and cash equivalents of approximately RMB78,776,000, inventories of approximately RMB1,936,306,000, trade and other receivables of RMB2,412,625,000, time deposits of RMB523,600,000 and pledged deposits of RMB469,119,000. As at 30 June 2015, the interest-bearing borrowings of the Group were RMB3,188,113,000, RMB2,911,816,000 of which were repayable within one year and RMB276,297,000 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 54.3%, comparing to 47.0% as at 31 December 2014. As at 30 June 2015, borrowings of 2,175,610,000 were in RMB, 148,323,000 were in USD and 15,380,000 were in EUR. The majority of the borrowings of the Group were subject to interests payable at the rates ranging from 0.76% 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 used in operating activities during the period was RMB12,142,000.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2015, the Group's net increase in fixed assets amounted to RMB96,701,000, which was mainly for the project of "continuous rolling mill". As at 30 June 2015, capital commitments were RMB95,593,000, of which RMB63,281,000 was contracted and RMB32,312,000 was authorised but not contracted for. The majority of the capital commitments was related to the acquisition and enhancement of production equipment.

FOREIGN EXCHANGE EXPOSURE

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (approximately 67%). Approximately 33% 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 2015, the Group pledged certain bank deposits amounting to approximately RMB469,119,000 (31 December 2014: RMB404,400,000) and certain trade receivables amounting to approximately RMB190,708,000 (31 December 2014: RMB285,273,000). Details are set out in the notes to the financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2015, the Group employed 3,120 employees (31 December 2014: 3,451). 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 2015.

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 2014).

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "Scheme") on 7 July 2007. On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the directors and employees of the Company in respect of their services to the Group. These share options had vested on 1 July 2012 and have an initial exercise price of HKD5.10 per share of USD0.01 each and an exercise period ranging from 1 July 2012 to 30 June 2016. The closing price of the Company's shares at the date of grant was HKD5.10 per share of USD0.01 each. Due to the implementation of share subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275.

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. These 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.

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.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares.

CORPORATE GOVERNANCE

During the six months ended 30 June 2015, 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 26 August 2015 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 2015 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, 26 August 2015

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*