# 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 2019

### FINANCIAL HIGHLIGHTS

*RMB'million (unless otherwise specified)*

| | **Six months ended 30 June 2019 (unaudited)** | Six months ended 30 June 2018 (unaudited) | **Change** |
|---|---|---|---|
| Revenue | **2,806.6** | 2,347.7 | 19.5% |
| Gross profit | **356.1** | 309.3 | 15.1% |
| Profit attributable to equity shareholders of the Company | **149.5** | 84.4 | 77.0% |
| Basic earnings per share *(RMB)* | **0.059** | 0.036 | 63.9% |
| Diluted earnings per share *(RMB)* | **0.059** | 0.036 | 63.9% |
| Gross profit margin | **12.7%** | 13.2% | (0.5 ppt) |
| Net profit margin | **5.5%** | 3.7% | 1.8 ppt |

| | **At 30 June 2019 (unaudited)** | At 31 December 2018 (audited) | **Change** |
|---|---|---|---|
| Net Assets | **4,899.0** | 4,823.0 | 1.6% |
| Net Debt[1] | **1,465.3** | 1,418.6 | 3.3% |
| Net Gearing[2] | **29.9%** | 29.4% | 0.5ppt |

*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 (the "Board") of directors (the "Directors") 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 2019 and the consolidated statement of financial position of the Group as at 30 June 2019 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee"), together with the comparative figures for the same period of 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2019 (unaudited)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | | **(unaudited)** | (unaudited) |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | *4* | **2,806,575** | 2,347,657 |
| Cost of sales | | **(2,450,451)** | (2,038,311) |
| **Gross profit** | | **356,124** | 309,346 |
| Other income | *5* | **11,562** | 16,260 |
| Distribution expenses | | **(46,232)** | (50,901) |
| Administrative expenses | | **(63,040)** | (72,560) |
| Other expenses | *6* | **(20,792)** | (42,383) |
| **Profit from operations** | | **237,622** | 159,762 |
| Finance income | | **9,720** | 3,647 |
| Finance expenses | | **(71,248)** | (67,178) |
| **Net finance costs** | *7(a)* | **(61,528)** | (63,531) |
| Share of profits of associates | | **3,302** | 2,590 |
| Share of (losses)/profits of joint ventures | | **(6,279)** | 8,203 |
| **Profit before income tax** | *7* | **173,117** | 107,024 |
| Income tax | *8* | **(19,418)** | (19,093) |
| **Profit for the period** | | **153,699** | 87,931 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **149,468** | 84,441 |
| Non-controlling interests | | **4,231** | 3,490 |
| **Profit for the period** | | **153,699** | 87,931 |
| **Earnings per share** *(RMB)* | *9* | | |
| Basic | | **0.059** | 0.036 |
| Diluted | | **0.059** | 0.036 |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2019 (unaudited)*

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **153,699** | 87,931 |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | |
| Items that will not be reclassified to profit or loss: | | |
| Equity investments at fair value through other comprehensive income — net movement in fair value reserve (net of tax of RMB1,935,000) (2018: net of tax of RMB1,680,000) (non-recycling) | **10,965** | (9,520) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of: | | |
| — financial statements of entities with functional currencies other than RMB | **(319)** | (1,535) |
| Other comprehensive income for the period | **10,646** | (11,055) |
| **Total comprehensive income for the period** | **164,345** | 76,876 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **160,114** | 73,386 |
| Non-controlling interests | **4,231** | 3,490 |
| **Total comprehensive income for the period** | **164,345** | 76,876 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2019 (unaudited)*

| | Note | At 30 June 2019 (unaudited) *RMB'000* | At 31 December 2018 (audited) *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,741,837** | 3,597,069 |
| Lease prepayments | | **114,919** | 93,628 |
| Goodwill | | **21,959** | 21,959 |
| Interest in associates | | **56,309** | 51,905 |
| Interest in joint ventures | | **27,332** | 33,813 |
| Other financial assets | | **132,924** | 100,024 |
| Deferred tax assets | | **32,140** | 25,195 |
| | | **4,127,420** | 3,923,593 |
| **Current assets** | | | |
| Trading securities | | **4,139** | 1,482 |
| Inventories | | **1,855,466** | 1,994,287 |
| Trade and other receivables | *10* | **2,394,332** | 2,351,841 |
| Pledged deposits | | **620,500** | 464,500 |
| Time deposits | | **575,568** | 717,414 |
| Cash and cash equivalents | | **577,371** | 583,235 |
| | | **6,027,376** | 6,112,759 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | | **2,339,238** | 2,284,602 |
| Trade and other payables | *11* | **1,879,995** | 1,911,451 |
| Current taxation | | **17,676** | 117 |
| Deferred income | | **5,279** | 5,279 |
| | | **4,242,188** | 4,201,449 |
| **Net current assets** | | **1,785,188** | 1,911,310 |
| **Total assets less current liabilities** | | **5,912,608** | 5,834,903 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | | **899,545** | 899,177 |
| Deferred income | | **47,859** | 50,498 |
| Deferred tax liabilities | | **66,180** | 62,268 |
| | | **1,013,584** | 1,011,943 |
| **Net assets** | | **4,899,024** | 4,822,960 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2019 (unaudited) (Continued)*

| | *Note* | **At 30 June 2019 (unaudited)** ***RMB'000*** | At 31 December 2018 (audited) *RMB'000* |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *12* | **45,242** | 45,242 |
| Reserves | | **4,698,095** | 4,626,262 |
| **Total equity attributable to equity shareholders of the Company** | | **4,743,337** | 4,671,504 |
| **Non-controlling interests** | | **155,687** | 151,456 |
| **Total equity** | | **4,899,024** | 4,822,960 |

## 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 2019 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

The interim results set out in the announcement do not constitute the interim report for the six months ended 30 June 2019 of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively the "Group") but are extracted from the report.

The unaudited interim financial report of 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 20 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 audited financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 audited financial statements. Details of any changes in 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 period to date basis. Actual results may differ from these estimates.

The 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 2018 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 will be included in the interim financial report.

The financial information relating to the financial year ended 31 December 2018 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 for the financial year ended 31 December 2018. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2018. 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 a new IFRS and a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 16, *Leases*
- Amendments to IAS 28, *Long-term interests in associates and joint ventures*
- Annual improvement to IFRSs 2015–2017 Cycle
- International Financial Reporting Interpretations Committee Interpretation 23, *Uncertainty over income tax treatments*

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 in this interim financial report. 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

### (a) Revenue

Revenue represents mainly the sales value of high alloy steel, (including die steel ("DS") and high speed steel ("HSS")), cutting tools, titanium alloy and trading of goods after eliminating intercompany transactions. Further details regarding the Group's revenue are disclosed in Note 4(b).

Disaggregation of revenue from contracts with customers by products divisions is as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| DS | **1,100,496** | 988,696 |
| HSS | **376,037** | 374,851 |
| Cutting tools | **282,023** | 270,512 |
| Titanium alloy | **144,596** | 106,700 |
| Trading of goods | **903,423** | 606,898 |
| | **2,806,575** | 2,347,657 |

The Group's revenue from contracts with customers was recognised at a point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

For the six months ended 30 June 2019, the Group's customer base is diversified and includes one customer (six months ended 30 June 2018: one customer) with whom transactions exceeded 10% of the Group's revenue. For the six months ended 30 June 2019, revenues from trading of goods to this customer amounted to approximately RMB903,423,000 (six months ended 30 June 2018: RMB564,827,000) and arose in the PRC.

**(b) Segment reporting**

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

— *DS* The DS segment manufactures and sells materials that are used in the die set manufacturing industry.

— *HSS* The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.

— *Cutting tools* The cutting tools segment manufactures and sells HSS and carbide cutting tools to the tooling industry.

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

— *Trading of goods* The trading of goods segment sells general carbon steel products that are not within the Group's production scope.

*(i) 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 basis:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in associates, interest in joint ventures, other financial assets, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other head office and corporate assets. Segment liabilities include bills payable, trade and non-trade payables, deferred income and accrued expenses attributable to the manufacturing and sales activities of the individual segments with the exception of interest-bearing borrowings, current taxation, deferred tax liabilities and other head office and corporate liabilities.

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 revenue) generated by the segments in their operations. Inter-segment revenue is priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the period ended 30 June 2019 and 2018 is set out below.

| | Six months ended 30 June 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **DS** | **HSS** | **Cutting tools** | **Titanium alloy** | **Trading of goods** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Revenue from external customers | **1,100,496** | **376,037** | **282,023** | **144,596** | **903,423** | **2,806,575** |
| Inter-segment revenue | **–** | **150,171** | **–** | **–** | **–** | **150,171** |
| **Reportable segment revenue** | **1,100,496** | **526,208** | **282,023** | **144,596** | **903,423** | **2,956,746** |
| **Reportable segment profit (adjusted EBIT)** | **173,160** | **75,759** | **36,139** | **19,424** | **350** | **304,832** |

| | As at 30 June 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **DS** | **HSS** | **Cutting tools** | **Titanium alloy** | **Trading of goods** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Reportable segment assets** | **4,053,682** | **2,126,511** | **1,297,619** | **585,748** | **8** | **8,063,568** |
| **Reportable segment liabilities** | **1,266,440** | **375,585** | **184,887** | **85,933** | **–** | **1,912,845** |

| | Six months ended 30 June 2018 | | | | | |
|---|---|---|---|---|---|---|
| | DS | HSS | Cutting tools | Titanium alloy | Trading of goods | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue from external customers | 988,696 | 374,851 | 270,512 | 106,700 | 606,898 | 2,347,657 |
| Inter-segment revenue | – | 111,008 | – | – | – | 111,008 |
| **Reportable segment revenue** | 988,696 | 485,859 | 270,512 | 106,700 | 606,898 | 2,458,665 |
| **Reportable segment profit (adjusted EBIT)** | 116,616 | 68,705 | 33,083 | 16,193 | 193 | 234,790 |

| | As at 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | DS | HSS | Cutting tools | Titanium alloy | Trading of goods | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Reportable segment assets** | 3,895,601 | 2,182,621 | 1,369,391 | 562,837 | 31 | 8,010,481 |
| **Reportable segment liabilities** | 1,343,658 | 363,104 | 179,345 | 56,315 | – | 1,942,422 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Reportable segment revenue | **2,956,746** | 2,458,665 |
| Elimination of inter-segment revenue | **(150,171)** | (111,008) |
| Consolidated revenue | **2,806,575** | 2,347,657 |

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Profit** | | |
| Reportable segment profit | **304,832** | 234,790 |
| Net finance costs | **(61,528)** | (63,531) |
| Share of profits of associates | **3,302** | 2,590 |
| Share of (losses)/profits of joint ventures | **(6,279)** | 8,203 |
| Other unallocated head office and corporate expenses | **(67,210)** | (75,028) |
| Consolidated profit before income tax | **173,117** | 107,024 |

| | **At 30 June 2019** | At 31 December 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Reportable segment assets | **8,063,568** | 8,010,481 |
| Interest in associates | **56,309** | 51,905 |
| Interest in joint ventures | **27,332** | 33,813 |
| Other financial assets | **132,924** | 100,024 |
| Deferred tax assets | **32,140** | 25,195 |
| Trading securities | **4,139** | 1,482 |
| Pledged deposits | **620,500** | 464,500 |
| Time deposits | **575,568** | 717,414 |
| Cash and cash equivalents | **577,371** | 583,235 |
| Other unallocated head office and corporate assets | **64,945** | 48,303 |
| Consolidated total assets | **10,154,796** | 10,036,352 |

| | At 30 June 2019 *RMB'000* | At 31 December 2018 *RMB'000* |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | **1,912,845** | 1,942,422 |
| Interest-bearing borrowings | **3,238,783** | 3,183,779 |
| Current taxation | **17,676** | 117 |
| Deferred tax liabilities | **66,180** | 62,268 |
| Other unallocated head office and corporate liabilities | **20,288** | 24,806 |
| Consolidated total liabilities | **5,255,772** | 5,213,392 |

*(iii) Geographical information*

The Group's business is managed on a worldwide basis and divided into four principal economic regions, 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** | |
|---|---|---|
| | **2019** *RMB'000* | 2018 *RMB'000* |
| **Revenue** | | |
| The PRC | **1,918,366** | 1,564,704 |
| North America | **296,563** | 227,518 |
| Europe | **408,010** | 396,190 |
| Asia (other than the PRC) | **160,193** | 134,514 |
| Others | **23,443** | 24,731 |
| Total | **2,806,575** | 2,347,657 |

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Government grants | **4,065** | 9,796 |
| Sales of scrap materials | **2,232** | 2,506 |
| Net foreign exchange gain | **2,125** | 3,526 |
| Dividend income from listed securities | **800** | – |
| Net realised and unrealised gains on trading securities | **567** | – |
| Others | **1,773** | 432 |
| | **11,562** | 16,260 |

The subsidiaries of the Group, including Jiangsu Tiangong Tools Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe") and Jiangsu Tiangong Technology Company Limited ("TG Tech"), located in the PRC, collectively received unconditional grants amounting to RMB1,426,000 (six months ended 30 June 2018: RMB6,936,000) from the local government to reward their contribution to the local economy and encourage technology innovation. TG Tools and TG Tech also recognised amortisation of government grants related to assets of RMB2,639,000 (six months ended 30 June 2018: RMB2,860,000) during the six months ended 30 June 2019.

## 6. OTHER EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Provision of loss allowance for trade receivables | **19,813** | 39,099 |
| Net loss on disposal of property, plant and equipment | **217** | 1,374 |
| Charitable donations | **520** | 1,000 |
| Net realised and unrealised losses on trading securities | **–** | 255 |
| Others | **242** | 655 |
| | **20,792** | 42,383 |

## 7. PROFIT BEFORE INCOME TAX

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

### (a) Net finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | **(9,720)** | (3,647) |
| Finance income | **(9,720)** | (3,647) |
| Interest on bank loans | **87,271** | 79,618 |
| Less: interest expense capitalised into property, plant and equipment under construction | **(16,023)** | (12,440) |
| Finance expenses | **71,248** | 67,178 |
| Net finance costs | **61,528** | 63,531 |

### (b) Other items

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories* | **2,450,451** | 2,038,311 |
| Depreciation | **118,443** | 112,085 |
| Amortisation of lease prepayments | **1,277** | 874 |
| Provision of write-down of inventories | **2,777** | 220 |
| Provision of loss allowance for trade receivables | **19,813** | 39,099 |

* *Cost of inventories includes RMB99,350,000 (six months ended 30 June 2018: RMB97,459,000) relating to depreciation expenses and provision for write-down of inventories, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.*

## 8. INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC Income Tax | **23,338** | 15,203 |
| Provision for Hong Kong Profits Tax | **1,048** | 2,772 |
| | **24,386** | 17,975 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(4,968)** | 1,118 |
| | **19,418** | 19,093 |

(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, TG Aihe and TG Tech are subject to a preferential income tax rate of 15% in 2019 available to enterprises which qualify as High and New Technology Enterprise (2018: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2018: 25%).

(c) Hong Kong Profits Tax has been provided for Tiangong Development Hong Kong Company Limited at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2019.

## 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 RMB149,468,000 (six months ended 30 June 2018: RMB84,441,000) and the weighted average of 2,539,050,000 ordinary shares in issue during the interim period (six months ended 30 June 2018: 2,322,383,333).

### (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 RMB149,468,000 (six months ended 30 June 2018: RMB84,441,000) and the weighted average number of ordinary shares of 2,544,871,574 (including effect of equity settled share-based transactions) (six months ended 30 June 2018: 2,324,099,955) for the six months ended 30 June 2019 after taking into account the potential dilutive effect of share options.

## 10. TRADE AND OTHER RECEIVABLES

| | At 30 June 2019 *RMB'000* | At 31 December 2018 *RMB'000* |
|---|---|---|
| Trade receivables | **1,355,063** | 1,193,506 |
| Bills receivable | **746,891** | 911,473 |
| Less: loss allowance | **(125,681)** | (105,868) |
| Net trade and bills receivable | **1,976,273** | 1,999,111 |
| Prepayments | **291,906** | 250,879 |
| Non-trade receivables | **126,153** | 101,851 |
| Less: loss allowance | **–** | – |
| Net prepayments and non-trade receivables | **418,059** | 352,730 |
| | **2,394,332** | 2,351,841 |

Trade receivables of RMB89,704,000 (2018: RMB151,780,000) have been pledged to a bank as security for the Group's bank loans.

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

| | At 30 June 2019 *RMB'000* | At 31 December 2018 *RMB'000* |
|---|---|---|
| Within 3 months | **1,504,855** | 1,592,295 |
| 4 to 6 months | **247,208** | 177,310 |
| 7 to 12 months | **150,663** | 52,609 |
| 1 to 2 years | **71,439** | 152,084 |
| Over 2 years | **2,108** | 24,813 |
| | **1,976,273** | 1,999,111 |

Trade and bills receivables are due from 90 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

## 11. TRADE AND OTHER PAYABLES

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

| | **At 30 June 2019** *RMB'000* | At 31 December 2018 *RMB'000* |
|---|---|---|
| Within 3 months | **832,690** | 1,022,521 |
| 4 to 6 months | **264,694** | 375,682 |
| 7 to 12 months | **520,752** | 291,150 |
| 1 to 2 years | **27,978** | 19,427 |
| Over 2 years | **32,306** | 31,813 |
| Total trade and bills payable | **1,678,420** | 1,740,593 |
| Contract liabilities | **78,513** | 32,434 |
| Non-trade payables and accrued expenses | **123,062** | 138,424 |
| | **1,879,995** | 1,911,451 |

## 12. CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

| | **2019** *RMB'000* | 2018 *RMB'000* |
|---|---|---|
| Dividend in respect of the previous financial year, approved and paid during the interim period, of RMB0.0357 per share (during the six months ended 30 June 2018: RMB0.0378 per share) | **90,410** | 100,183 |

The directors do not recommend payment of an interim dividend for the interim period (no interim dividend for the six months period ended 30 June 2018).

### (b) Equity settled share-based transactions

On 11 January 2018, 60,000,000 share options were granted to employees of the Company in two lots under the Company's employee share option scheme adopted on 26 May 2017. Each option gives the holder the right to subscribe for one ordinary share of the Company. 50% of these share options have vested on 31 March 2019 and the remaining 50% of these share options will vest on 31 March 2020. These share options will be exercisable until 31 December of the same years as the vesting date. The amount payable on acceptance per grant is HKD1.00. The exercise price is HKD1.50.

No options were exercised during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

When the options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in capital reserve will be transferred to retained earnings.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | 2018 | | Change | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Die steel ("DS") | **1,100,496** | **39.2** | 988,696 | 42.1 | 111,800 | 11.3 |
| High speed steel ("HSS") | **376,037** | **13.4** | 374,851 | 16.0 | 1,186 | 0.3 |
| Cutting tools | **282,023** | **10.0** | 270,512 | 11.5 | 11,511 | 4.3 |
| Titanium alloy | **144,596** | **5.2** | 106,700 | 4.5 | 37,896 | 35.5 |
| Trading of goods | **903,423** | **32.2** | 606,898 | 25.9 | 296,525 | 48.9 |
| | **2,806,575** | **100.0** | 2,347,657 | 100.0 | 458,918 | 19.5 |

***DS — accounted for approximately 39% of the Group's revenue in 1H2019***

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | 2018 | | Change | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **496,543** | **45.1** | 462,095 | 46.7 | 34,448 | 7.5 |
| Export | **603,953** | **54.9** | 526,601 | 53.3 | 77,352 | 14.7 |
| | **1,100,496** | **100.0** | 988,696 | 100.0 | 111,800 | 11.3 |

DS is manufactured using 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 the automotive, high-speed railway construction, aviation and plastic product manufacturing industries.

The Group strived to increase its DS market share by actively exploring different marketing channel and strengthening its direct sales effort. In 1H2019, the sales volume of the DS products increased by 9.4%. The average selling price increased mildly by 1.7%. Consequently, revenue generated from the DS segment increased by approximately 11.3% to RMB1,100,496,000 (1H2018: RMB988,696,000).

Demand from both domestic and overseas markets stayed strong. Domestic sales volume increased by 5.8% while export sales volume increased more significantly by 13.5%. As a result, domestic revenue recorded an increase of 7.5% to RMB496,543,000 (1H2018: RMB462,095,000). On the export side, sales revenue increased by 14.7% to RMB603,953,000 (1H2018: RMB526,601,000).

***HSS — accounted for approximately 13% of the Group's revenue in 1H2019***

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | 2018 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **274,197** | **72.9** | 274,022 | 73.1 | 175 | 0.1 |
| Export | **101,840** | **27.1** | 100,829 | 26.9 | 1,011 | 1.0 |
| | **376,037** | **100.0** | 374,851 | 100.0 | 1,186 | 0.3 |

HSS, manufactured using rare metals including tungsten, molybdenum, chromium and vanadium, is characterised 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 for HSS remained strong in both domestic and overseas markets. On the other hand, the average selling price of HSS decreased as a result of reduced price of tungsten, one of the rare metals specifically used in production of HSS.

As the demands and requirements in domestic market and overseas market are different (i.e. customers in overseas market favour HSS products with higher composition of tungsten), there was a larger reduction in average selling price in overseas market than that in domestic market. In domestic market, the sales volume increased by 1.7% while the average selling price decreased by 1.6%. In contrast, the sales volume in overseas markets increased by 9.5% while the average selling price decreased by 7.8%.

In 1H2019, overall revenue generated by HSS segment remained steady at RMB376,037,000 (1H2018: RMB374,851,000).

***Cutting tools — accounted for approximately 10% of the Group's revenue in 1H2019***

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | 2018 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **99,831** | **35.4** | 115,176 | 42.6 | (15,345) | (13.3) |
| Export | **182,192** | **64.6** | 155,336 | 57.4 | 26,856 | 17.3 |
| | **282,023** | **100.0** | 270,512 | 100.0 | 11,511 | 4.3 |

Cutting tools segment included HSS and carbide cutting tools. HSS cutting tools products can be categorised 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 tools production brought us a significant cost advantage over the Group's peers. The high end carbide tools manufactured by the Group mainly comprised of customised tools.

Since 2018, the Group adopted a policy to avoid any unnecessary price war with other small scale production companies in the domestic lower-end market. The Group continued to focus more on middle-end product in both domestic and overseas markets which the market environment was less competitive. This has resulted in a reduction in the overall sales volume, but at the same time, an increase in average selling prices achieved.

In 1H2019, the overall sales volume of cutting tools products decreased by 18.6% while the average selling price increased by 28.0%. Revenue of cutting tools segment, consequently, increased by 4.3% to RMB282,023,000 (1H2018: RMB270,512,000).

For middle-end products, the overseas markets have shown a stronger demand than the domestic market. As a result, export sales became more focused in cutting tools segment.

***Titanium alloy — accounted for approximately 5% of the Group's revenue in 1H2019***

| | **For the six months ended 30 June** | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | | 2018 | | Change | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **144,372** | **99.8** | 106,513 | 99.8 | 37,859 | 35.5 |
| Export | **224** | **0.2** | 187 | 0.2 | 37 | 19.8 |
| | **144,596** | **100.0** | 106,700 | 100.0 | 37,896 | 35.5 |

The 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 industries, including aerospace, chemical pipeline equipment, nuclear and ocean industries.

In 1H2019, the overall sales volume of titanium alloy products increased by 22.4% and the average selling price also increased by 10.8%. As a result, there was a significant increase in revenue by 35.5% to RMB144,596,000 (1H2018: RMB106,700,000) was achieved.

The significant increase in sales volume was mainly due to the increasing demand of titanium pipe and container in chemical industry as a result of tightened environmental requirement.

Development progress of overseas markets is making good progress and has recorded an increase of 19.8% in export revenue.

*Trading of goods*

This segment involves the purchases and sales of general carbon steel products which were not within the Group's production scope. Instead of pursuing profitability, the Group intended to utilise their enriched sourcing resources in the supply chain to maintain the relationship with our existing customer.

**Market Review**

In the first half of 2019, the complicated and volatile global economic situation and the intensifying Sino-US trade frictions painted a gloomy outlook for the PRC's imports and exports, which also brought uncertainties to the steel industry. However, owing to the scarcity and core competitiveness of the products, as well as the growing demand for titanium alloy products, the Group not only increased its die steel market share during the Period, but also reported a growth in sales in die steel and titanium alloy products, which drove the growth of its overall business performance.

According to the latest report of the world's leading research centre, Steel & Metals Market Research, the Group is ranked third among the global die steel producers, moving up one spot from the previous report. With an annual production capacity of 50,000 tonnes of HSS, the Group has been ranked the largest HSS manufacturer globally and nationally since 2007, accounting for 35% and 15% of current total production in the PRC and worldwide respectively.

***Acquisition of Land and Buildings***

In order to provide more office space for administrative uses and meet the increasing operational needs as the business continues to grow, the Group entered into an acquisition agreement with Jiangsu Tiangong Group Company Limited on 15 January 2019, whereby it would acquire two buildings with an aggregate gross floor area of 22,561.14 sq. m. and a related land with a gross site area of 55,946.9 sq. m. for a consideration of RMB100 million. The consideration shall be satisfied in cash using the Group's internal resources.

***Achievement***

During the Period, the Group was awarded the "Best Investment Value Award" at the China Financial Market Awards 2019 organised by the renowned financial magazine China Financial Market for its excellent business performance and proactive communication with investors to enhance corporate governance and transparency.

In addition, the Group has always been focusing on research and development ("R&D") activities in the effort to offer high-end products with better quality. During the Period, the Group's project on the "Development and Application of Crucial High Quality Die-casting Technology" has won the first class prize in the Metallurgical Science and Technology Award co-organised by the China Iron and Steel Industry Association, the Chinese Society for Metals and the Metallurgical Science and Technology Awards Committee. This demonstrates the industry's recognition of the Group's R&D technology.

## Outlook

### *Operating environment*

Looking into the second half of 2019, the Sino-US trade frictions would inevitably cause damage to the Chinese economy. The market, however, is expecting potential interest-rate cuts by the Federal Reserve to help offset some of the negative impacts. An analysis noted that infrastructure investment growth will continue to pick up in the second half of 2019, and the steel industry will grow steadily in the long run. In view of the wide application of the Group's four major products, namely HSS, die steel, cutting tools and titanium alloys, in aviation, automotive, high-speed train and petrochemical industries as well as mechanical processing sector, the Company's business is expected to sustain its growth momentum.

### *Product development strategy*

The Group will continue to explore the high-end new materials market by actively looking for acquisition opportunities of overseas new materials enterprises, while at the same time developing powder metallurgy products in full swing. The Group plans to invest RMB500 million to establish the first die steel powder metallurgy production line in the PRC, with an aim to provide high-quality raw materials for automotive and aerospace industries. Construction of this production line has already commenced in March 2018. An overall trial run is scheduled for the fourth quarter this year. The planned annual production volume for the first phase of the powder metallurgy production line is 2,000 tonnes and the Group has already received bulk orders for related products. It is expected that this project will not only fill the domestic supply gap and tap into international markets, but it can also boost customer loyalty and overall profits with the provision of high-end products.

### *Marketing strategy*

Furthermore, the Group will further strengthen its sales channel to reduce the intermediate costs and improve its overall gross profit margin. On the one hand, the Group will continue to increase the proportion of direct sales to minimise its reliance on distributors. On the other hand, the Group has set up online sales channel to sell its own branded products directly.

## Our Mission

The Group will continue to enhance all aspects of the business, including core technologies and products, in order to cope with the complex international situation and challenges.

As always, the Group believes that innovation and advancement are the best way to remain competitive and this will eventually realise the true value of the Group's businesses.

Last but not least, we re-affirm that maximisation 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 section contains certain forward looking statements with respect to the financial condition, results of operations and businesses 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 increased by approximately 77.0% from RMB84,441,000 in the first half of 2018 to RMB149,468,000 in the first half of 2019. The increase was mainly attributable to (i) increase in sales volume of the Group's DS segment during the interim financial period from 1 January 2019 to 30 June 2019 (the "Period") due to the increased Group's market share in the industry; and (ii) increase in sales volume of the Group's titanium alloy segment during the Period due to the increase market demand for titanium alloy products.

***Revenue***

Revenue of the Group for the first half of 2019 totalled RMB2,806,575,000, representing an increase of 19.5% when compared with RMB2,347,657,000 in the first half of 2018. All the segments of the Group experienced an increase during the year.

***Cost of sales***

The Group's cost of sales increased from RMB2,038,311,000 for the first half of 2018 to RMB2,450,451,000 for the first half of 2019, representing an increase of 20.2%. The increase was mainly due to an increase in sales during the Period.

***Gross margin***

For the first half of 2019, gross margin was 12.7% (1H2018: 13.2%). Set out below is the gross margin for the five segments of the Group for the first half of 2018 and 2019:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2019** | 2018 |
| DS | **19.0%** | 17.8% |
| HSS | **21.8%** | 20.4% |
| Cutting tools | **15.2%** | 15.1% |
| Titanium alloy | **15.0%** | 15.0% |
| Trading of goods | **0.04%** | 0.03% |

*DS*

The gross margin of DS increased from 17.8% in the first half of 2018 to 19.0% in the first half of 2019. During the Period, sales of DS segment consisted of products with higher rare metals composition. These higher value products contributed to an improved overall gross margin.

*HSS*

Gross margin of HSS slightly increased from 20.4% in the first half of 2018 to 21.8% in the first half of 2019. The increase was mainly caused by the change in the mix of the product sold during the Period.

*Cutting tools*

The domestic market for cutting tools is relatively mature and stable in recently years. Simulated by increased overseas demand, the gross margin of cutting tools achieved a slight improvement from 15.1% in the first half of 2018 to 15.2% in the first half of 2019.

*Titanium alloy*

Gross margin of titanium alloy remained at 15.0% in the first half of 2019 as compared to the same period in 2018.

***Other income***

The Group's other income decreased from RMB16,260,000 in the first half of 2018 to RMB11,562,000 in the first half of 2019. The decrease was mainly attributable to (i) an decrease in government grants received from the PRC government; and (ii) decrease in foreign exchange gains.

***Distribution expenses***

The Group's distribution expenses were RMB46,232,000 (1H2018: RMB50,901,000), representing an decrease of 9.2%. The decrease was mainly due to the one-off marketing and advertising expense, including sponsoring and acquiring the naming right for the high speed railway and marketing expense which were incurred in 2018. For the first half of 2019, distribution expenses as a percentage of revenue was 1.6% (1H2018: 2.2%).

***Administrative expenses***

For the first half of 2019, the Group's administrative expenses decreased to RMB63,040,000 (1H2018: RMB72,560,000). The decrease was mainly attributable to the cost allocation of the share option scheme. According to the vesting period of the 60,000,000 share options granted in 2018, a larger portion of the cost of the share option scheme was incurred in 2018. For the first half of 2019, administrative expenses as a percentage of revenue was 2.2% (1H2018: 3.1%).

*Net finance costs*

The Group's net finance costs decreased from RMB63,531,000 in the first half of 2018 to RMB61,528,000 in the first half of 2019, which was the result of an increase in interest income from the higher level average bank balances kept during the first half of 2019.

*Income tax expense*

The Group's income tax expense increased from RMB19,093,000 in the first half of 2018 to RMB19,418,000 in the first half of 2019. The increase was mainly due to an increase in the operating results during the Period.

*Profit for the period*

As a result of the factors set out above, the Group's profit increased by 74.8% to RMB153,699,000 for the first half of 2019 from RMB87,931,000 for the first half of 2018. The Group's net profit margin increased from 3.7% in the first half of 2018 to 5.5% in the same period of 2019.

*Profit attributable to equity shareholders of the Company*

For the first half of 2019, profit attributable to equity shareholders of the Company was RMB149,468,000 (1H2018: RMB84,441,000), representing an increase of 77.0%.

*Trade and bills receivable*

Net trade and bills receivable decreased mildly from RMB1,999,111,000 as at 31 December 2018 to RMB1,976,273,000 as at 30 June 2019. The provision for doubtful debts of RMB125,681,000 (2018: RMB105,868,000) accounted for 6.4% (2018: 5.3%) of the trade and bills receivables.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's current assets mainly included cash and cash equivalents of RMB577,371,000, inventories of RMB1,855,466,000, trade and other receivables of RMB2,394,332,000, time deposits of RMB575,568,000 and pledged deposits of RMB620,500,000. The Group's current assets were RMB6,027,376,000 compared to RMB6,112,759,000 as at 31 December 2018.

As at 30 June 2019, interest-bearing borrowings of the Group were RMB3,238,783,000 (31 December 2018: RMB3,183,779,000), RMB2,339,238,000 (31 December 2018: RMB2,284,602,000) of which were repayable within one year and RMB899,545,000 (31 December 2018: RMB899,177,000) 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 29.9%, compared to 29.4% as at 31 December 2018.

As at 30 June 2019, borrowings of RMB1,971,200,000 (31 December 2018: RMB2,112,000,000) were denominated in RMB, USD81,580,644 (31 December 2018: USD56,705,916) were denominated in USD, EUR65,300,018 (31 December 2018: EUR66,712,271) were denominated in EUR and HKD223,085,430 (31 December 2018: HKD181,560,200) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.90% to 5.22% (31 December 2018: 0.90% to 5.22%). Net cash generated from operating activities during the Period was RMB419,979,000 (1H2018: RMB206,287,000).

## CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2019, the Group's net increase in property, plant and equipment amounted to RMB144,768,000 (1H2018: RMB16,393,000). The increase was mainly related to the construction of powder metallurgy production line and purchase of land and building. As at 30 June 2019, capital commitments were RMB340,739,000 (31 December 2018: RMB458,597,000), of which RMB80,227,000 (31 December 2018: RMB90,265,000) was contracted for and RMB260,512,000 (31 December 2018: RMB368,332,000) was authorised but not contracted for. The majority of capital commitments related to the powder metallurgy production line and smelting facilities.

## USE OF PLACING PROCEEDS

The Group invited two strategic investors, BAIC Group Industrial Investment Co., Ltd. and Jiangsu Shagang Group Co., Ltd. to subscribe for an aggregate of 300,000,000 shares at the placing price of HK$1.60 per share. The placing of the 300,000,000 shares was completed on 11 May 2018 with the net proceeds of HK$477.8 million representing a net issue price of approximately HK$1.59 per share. The market price of the placing share was HK$1.78 per share as quoted on the Stock Exchange of Hong Kong on 27 April 2018, the date when the terms of the placing agreement were fixed. The proceeds from the placing have been used as follows:

| Intended use of proceeds from the placing | Actual use of proceeds (as at 30 June 2019) | Proposed use of the remaining unutilised proceeds (as at 30 June 2019) |
|---|---|---|
| (i) Construction of powder metallurgy production facilities | HK$56.7 million was used in construction of powder metallurgy production facilities | The remaining unutilised proceeds was nil |
| (ii) Replenishment of Group's working capital to procure raw materials and meet any cashflow requirements that may arise from daily operations | HK$421.1 million was used as working capital and for daily operation, including payment of electricity, staff salaries and procurement of raw materials | The remaining unutilised proceeds was nil |

## RISK AND PREVENTION

### Operating Exposure

As a material supplier to the global market, the Group is facing challenges from other competitors as well as overseas government. The Group noted that the government of the United States imposed import tariffs on steel. Notwithstanding this, the Group's revenue from North America recorded an increase from RMB227,518,000 in 1H2018 to RMB296,563,000 in 1H2019, which represented 30.3% increase compared to 1H2018, the Group believed that as a reliable supplier in these specialised material industries, the quality of our products and services has assisted us to withstand the harsh trading environment. As such, the Group's financial results has not been significantly adversely affected by the imposed import tariffs. Since the sales network of the Group is diversified over the world, if necessary, the Group can adjust its export business strategy by focusing on the most profitable regions and countries.

The Group realised that there was a significant increase in the trading business during the 1H2019. To protect the Group from the risk involved in the trading business, the Group implemented and executed a series of control measure as always to minimise the trading risk, including:

1. The Group only traded with state-owned enterprise with good long-term credit history;

2. Trading transaction was initiated by a valid demand of customers (ie. The Group will only seek for supplier after valid order was received); and

3. Customers were required to pay before delivery.

The Group considered the above are effective measures to ensure the recoverability of the receivables from the trading business.

### Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (68.4% (1H2018: 66.3%)). 31.6% (1H2018: 33.7%) of the total sales and operating profit were subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a timely basis to minimise any significant financial impact from exchange rate exposure.

## PLEDGE OF ASSETS

As at 30 June 2019, the Group pledged certain bank deposits amounting to approximately RMB620,500,000 (31 December 2018: RMB464,500,000) and certain trade receivables amounting to approximately RMB89,704,000 (31 December 2018: RMB151,780,000). Details are set out in the notes to the financial statements.

## EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2019, the Group employed 2,890 employees (31 December 2018: 2,864). 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 2019 (31 December 2018: No material contingent liabilities).

## 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 2018).

## SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "2007 Share Option Scheme") on 7 July 2007.

The 2007 Share Option Scheme expired on 6 July 2017. As at 30 June 2019, a total of 35,170,000 shares have been allotted and issued pursuant to the 2007 Share Option Scheme, 34,764,000 options granted under the 2007 Share Option Scheme were cancelled and lapsed and 22,147,000 options granted under the 2007 Share Option Scheme were exercisable until 18 August 2019 according to the terms of grant, notwithstanding the expiry of the 2007 Share Option Scheme. 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 (as at the date of this announcement, of the 22,147,000 options, no options were exercised and 22,147,000 options lapsed). The closing price of the Company's shares at the date of grant was HKD1.78 per share of USD0.0025 each.

A new share option scheme of the Company was approved by the Company in the annual general meeting held on 26 May 2017.

On 11 January 2018, options entitled holders to subscribe for a total of 60,000,000 shares of USD0.0025 each were granted to and accepted by certain Directors, employees and consultants of the Company in respect of their services to the Group. 50% of these share options will be vested on 31 March 2019 if the consolidated audited net profit of the Company for the year ending 31 December 2018 represents an increase of 50% or more as compared to that of the year ended 31 December 2017. The remaining 50% of these share options will be vested on 31 March 2020 if the consolidated audited net profit of the Company for the year ending 31 December 2019 represents an increase of 50% or more as compared to that of the year ended 31 December 2018. All these options have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period commencing from the relevant vesting date and ending on 31 December of the same year as the vesting date. The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each. As there was an increase in audited consolidated net profit of 53.1%, options in relation to 30,000,000 shares vested on 31 March 2019.

## PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2019, 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 2019, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the following deviation:

### Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors ("INEDs") and other non-executive directors should also attend general meetings. Two of the INEDs, Mr. Gao Xiang and Mr. Lee Cheuk Yin, Dannis were was unable to attend the annual general meeting of the Company held on 24 May 2019 due to business engagement.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors. The Audit Committee held a meeting on 16 August 2019 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 2019 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 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, 20 August 2019

*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 WANG Xuesong*

* *For identification purposes only*