



天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

2019

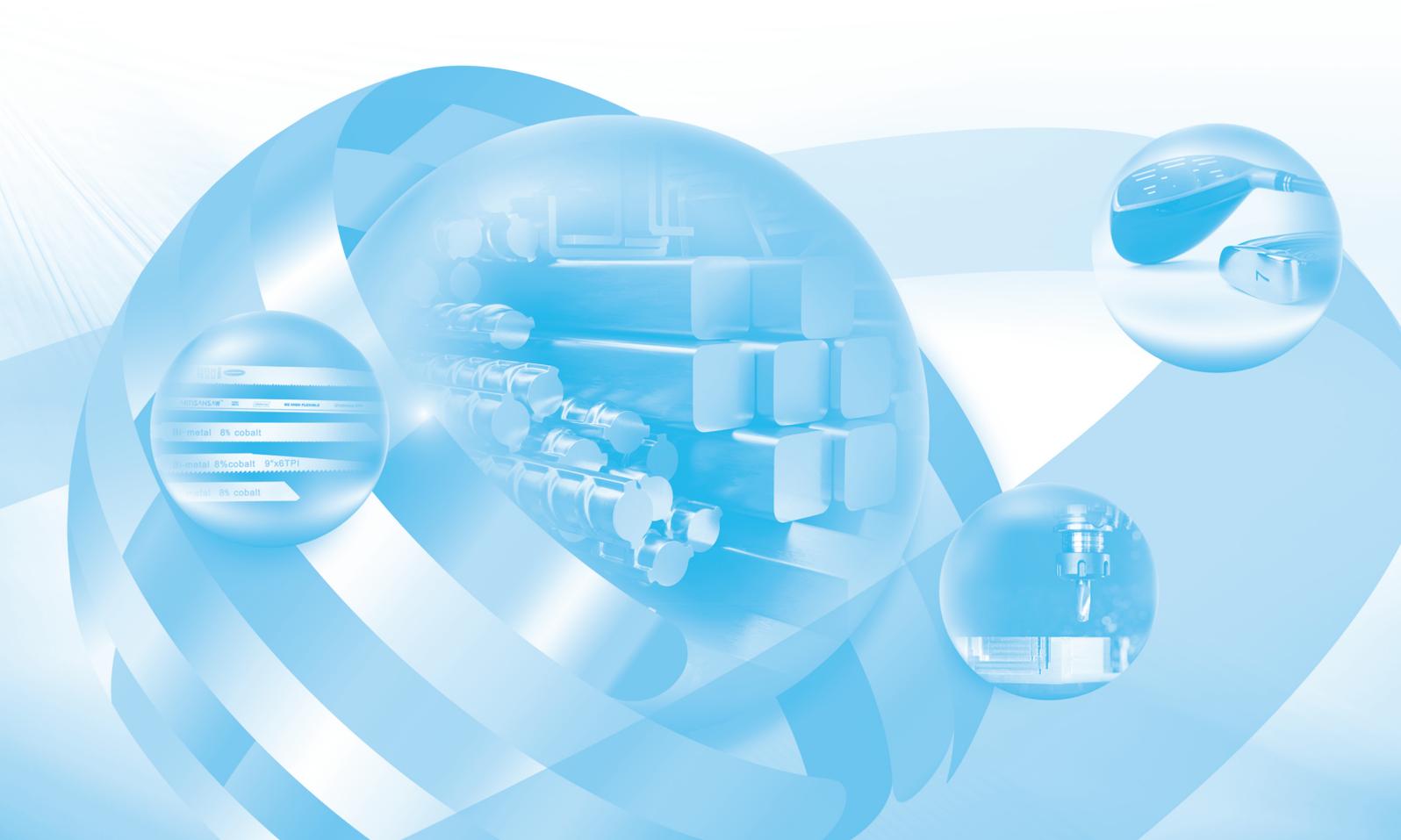
INTERIM REPORT



* For identification purpose only

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Corporate Information

REGISTERED NAME

Tiangong International Company Limited

CHINESE NAME

天工國際有限公司

STOCK CODE

Hong Kong Stock Exchange: 826

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Wang Xuesong

COMPANY SECRETARY

Mr. Lee Johnly

AUTHORIZED REPRESENTATIVES

Mr. Lee Cheuk Yin, Dannis
Mr. Lee Johnly

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

REGISTERED OFFICE IN HONG KONG

Unit 1303,13/F
Jubilee Centre
18 Fenwick Street
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS

Zhenjiang City
Jiangsu Province
The PRC

AUDITORS

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

HONG KONG LEGAL ADVISER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor, 24 Shedden Road
P.O. Box 1586, Grand Cayman
KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS

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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).

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 was 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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. Stimulated 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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. The Group's borrowing requirements are not subject to seasonality.

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

Management Discussion and Analysis

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.

Management Discussion and Analysis

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).

NO MATERIAL CHANGE

Save as disclosed in this report, information in relation to the Group's performance in the Reporting Period for matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from the information disclosed in the 2018 annual report of the Company.

Report of the Directors

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company is pleased to submit the interim report together with the unaudited consolidated financial statements of the Group for the six months ended 30 June 2019 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee").

INTERIM DIVIDEND

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Interests in the Company

Director's name	Interests	Number of ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun ^(1 and 2)	Interests of controlled corporations	817,190,000 (L)	32.18
	Beneficial owner	3,800,000 (L)	0.15
	Beneficial owner ⁽³⁾	500,000 (L)	0.02
			32.35
Mr. Wu Suojun	Beneficial owner	800,000 (L)	0.03
	Beneficial owner ⁽³⁾	2,467,000 (L)	0.10
Mr. Yan Ronghua	Beneficial owner	500,000 (L)	0.02
	Beneficial owner ⁽³⁾	1,300,000 (L)	0.05
Mr. Jiang Guangqing	Beneficial owner	300,000 (L)	0.01
	Beneficial owner ⁽³⁾	900,000 (L)	0.04
Mr. Lee Cheuk Yin, Dannis	Beneficial owner ⁽³⁾	300,000 (L)	0.01
Mr. Gao Xiang	Beneficial owner ⁽³⁾	300,000 (L)	0.01
Mr. Wang Xuesong	Beneficial owner ⁽³⁾	300,000 (L)	0.01

Report of the Directors

Notes:

As at 30 June 2019,

- (1) Tiangong Holdings Company Limited ("THCL") held 773,258,000 ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 773,258,000 shares held by THCL.
- (2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 43,932,000 ordinary shares.
- (3) Options (physically settled) granted under share option schemes of the Company.
- (L) Represents long position.

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total number of Shares	Approximate percentage of interests (%)
Mr. Zhu Xiaokun	THCL	Beneficial owner	44,511 (L)	89.02%
		Spousal interest ⁽¹⁾	5,489 (L)	10.98%
Mr. Zhu Xiaokun	Jiangsu Tiangong Technology Company Limited ("TG Tech")	Beneficial owner	10,000,000 (L) ⁽²⁾	2.47%

Notes:

- (1) Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun held 5,489 shares in THCL. Mr. Zhu Xiaokun is deemed to be interested in such 5,489 shares in THCL.
- (2) Mr. Zhu Xiaokun acquired the shares in TG Tech in previous placing.
- (L) Represents long position.

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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2019, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company and its associated corporations which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

(a) Interests in the Company

Substantial shareholders' name	Nature of interests and capacity	Number of ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted) ⁽⁶⁾
Yu Yumei ⁽¹⁾	Spousal interest ⁽²⁾	821,490,000 (L)	32.35	31.70
THCL ⁽¹⁾	Beneficial owner	773,258,000 (L)	30.45	29.84
Zhu Zefeng	Interests of controlled corporations ⁽³⁾	608,768,521 (L)	23.98	23.49
	Beneficial owner	500,000 (L)	0.02	0.02
	Beneficial owner	1,000,000 (L) ⁽⁴⁾	0.04	0.04
			24.04	23.55
Niu Qiu Ping	Spousal interest ⁽⁵⁾	610,268,521 (L)	24.04	23.55
Sky Greenfield Investment Limited	Beneficial owner ⁽³⁾	608,768,521 (L)	23.98	23.49
Liu Yang	Interest of controlled corporations ⁽⁷⁾	155,492,000 (L)	6.12	6.00
Atlantis Capital Holdings Limited	Interest of controlled corporations ⁽⁷⁾	155,492,000 (L)	6.12	6.00
Atlantis Investment Management Limited	Beneficial owner ⁽⁷⁾	155,492,000 (L)	6.12	6.00
Atlantis Investment Management (Ireland) Limited	Beneficial owner ⁽⁷⁾	20,492,000 (L)	0.81	0.79
Riverwood Asset Management (Cayman) Ltd.	Investment manager ⁽⁸⁾	135,000,000 (L)	5.32	5.21
北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd.*)	Interests of controlled corporations ⁽⁹⁾	150,000,000 (L)	5.91	5.79

Report of the Directors

Substantial shareholders' name	Nature of interests and capacity	Number of ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted) ⁽⁶⁾
深圳市安鵬股權投資基金管理 有限公司 (Shenzhen An Peng Equity Investment Fund Management Co., Ltd*)	Beneficial owner	150,000,000 (L)	5.91	5.79
諾安基金管理有限公司－諾安彩虹 十五號資產管理計劃 (BOC-Lion Rainbow No.15 Fund*)	Trustee ⁽¹⁰⁾	150,000,000 (L)	5.91	5.79
Jiangsu Shagang Group Co., Ltd	Interests of controlled corporations ⁽¹¹⁾	150,000,000 (L)	5.91	5.79
Shagang International (Hong Kong) Co., Limited	Beneficial owner	150,000,000 (L)	5.91	5.79

(L) Represents long position.

Notes:

- (1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Ms. Yu Yumei.
- (2) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".
- (3) Mr. Zhu Zefeng controlled 100% of Sky Greenfield Investment Limited.
- (4) Options granted under Share Option Scheme of the Company.
- (5) Ms. Niu Qiu Ping is the spouse of Mr. Zhu Zefeng and is deemed to be interested in the shares of the Company held by Mr. Zhu Zefeng.
- (6) As at the date of 30 June 2019, 22,147,000 ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the 2007 Share Option Scheme and 30,000,000 ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the Share Option Scheme of the Company.
- (7) Atlantis Investment Management (Ireland) Limited and Atlantis Investment Management (Hong Kong) Limited are wholly-owned by Atlantis Capital Holdings Limited which is in turn wholly-owned by Liu Yang.
- (8) Riverwood Asset Management (Cayman) Ltd. is wholly-owned by Liu Yang.
- (9) 深圳市安鵬股權投資基金管理有限公司 Shenzhen An Peng Equity Investment Fund Management Co., Ltd ("An Peng Fund") is a wholly-owned company of 北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd*).
- (10) 諾安基金管理有限公司－諾安彩虹十五號資產管理計劃 Lion Rainbow No. 15 Fund is a single client asset management scheme invested and established by An Peng Fund with 諾安基金管理有限公司 Lion Fund Management Co., Ltd. * as the asset manager.
- (11) Shagang International (Hong Kong) Co., Limited, is a wholly-owned company of Jiangsu Shagang Group Co., Ltd.

* For identification purpose only

Report of the Directors

(b) Interests in the shares of associated corporation

Substantial shareholder's name	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Ms. Yu Yumei	THCL	Beneficial owner	5,489 (L)	10.98
		Spousal interest ⁽¹⁾	44,511 (L)	89.02
Ms. Yu Yumei	TG Tech	Spousal interest ⁽¹⁾	10,000,000 (L)	2.47
Guo Guangchang	TG Tech	Interests of controlled corporations ⁽²⁾	72,697,000 (L)	17.95
南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*)	TG Tech	Interests of controlled corporations ⁽³⁾	72,697,000 (L)	17.95
南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*)	TG Tech	Interests of controlled corporations ⁽⁴⁾	72,697,000 (L)	17.95

Notes:

- (1) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the associated corporations of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of associated corporations of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (b) Interests in the shares of associated corporation".
- (2) Guo Guangchang was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of his control over numerous corporations:
 - (a) Guo Guangchang controlled 85.29% of Fosun International Holdings Ltd.
 - (b) Fosun International Holdings Ltd. controlled 100% of 復星控股有限公司 (Fosun Holdings Limited).
 - (c) 復星控股有限公司 (Fosun Holdings Limited) controlled 70.75% of 復星國際有限公司 (Fosun International Ltd.).
 - (d) 復星國際有限公司 (Fosun International Ltd.) controlled 100% of 上海復星高科技(集團)有限公司 (Shanghai Fosun High Mainland China Technology (Group) Co., Ltd.).
 - (e) 上海復星高科技(集團)有限公司 (Shanghai Fosun High Mainland China Technology (Group) Co., Ltd.) controlled 100% of 上海復星產業投資有限公司 (Shanghai Fosun Industrial Investment Co., Ltd.) and 30% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).
 - (f) 上海復星產業投資有限公司 (Shanghai Fosun Industrial Investment Co., Ltd.) controlled 100% of 上海復星工業技術發展有限公司 (Shanghai Fosun Industrial Technology Development Co., Ltd.) and 20% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).
 - (g) 上海復星工業技術發展有限公司 (Shanghai Fosun Industrial Technology Development Co., Ltd.) controlled 10% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).
 - (h) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) controlled 100% of 南京鋼鐵聯合有限公司 (Nanjing Iron & Steel United Co., Ltd.) and 40.55% of 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.).
 - (i) 南京鋼鐵聯合有限公司 (Nanjing Iron & Steel United Co., Ltd.) controlled 2.74% of 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.).

Report of the Directors

- (3) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations:
- (a) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) controlled 36.07% of 南京鋼鐵創業投資有限公司 (Nanjing Iron & Steel Business Investment Co., Ltd.*).
 - (b) 南京鋼鐵創業投資有限公司 (Nanjing Iron & Steel Business Investment Co., Ltd.*) controlled 51% of 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*).
 - (c) 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*) controlled 40% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).
 - (d) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) in turn controlled various corporations set out in note 2 (h) and (i) above.
- (4) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations:
- (a) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*) controlled 49% of 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*).
 - (b) 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*) controlled 40% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).
 - (c) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) in turn controlled various corporations set out in note 2(h) and (i) above.

* For identification purpose only

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 report, 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.

The purpose of the Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole. The Share Option Scheme will provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants. The major terms of the Share Option Scheme are as follows:

1. The Directors may, at their discretion, invite any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group (the "Participants") to participate in the Share Option Scheme.
2. The maximum number of shares over which options may be granted under the Share Option Scheme must not exceed 222,008,000 shares of nominal value USD0.0025 each in the capital of the Company. As at the date of this report, options in respect of 222,008,000 shares may be granted, representing approximately 9.9% of the issued share capital of the Company as at the date of this report.
3. The total number of shares of the Company issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) under the Scheme in any 12 month period must not exceed 1% of the shares in issue. Any further grant of options which would result in the number of shares issued as aforesaid exceeding the said 1% limit must be subject to prior shareholders' approval with the relevant Participant and his associates abstaining from voting.

Report of the Directors

4. The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant date of grant (being the date on which the Board resolves to make an offer of option to the relevant grantee).
5. At the time of grant of the options, the Company may specify any minimum period(s) for which an option must be held before it can be exercised. The Scheme does not contain any such minimum period.
6. The amount payable on acceptance of an option is HKD1.00.
7. The subscription price for the shares, the subject of the options, shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant. The subscription price will be established by the Board at the time the option is offered to the Participants.
8. The Share Option Scheme shall be valid and effective till 24 May 2027.

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 ended 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.

Report of the Directors

	No. of options outstanding at the beginning of the year	No. of options granted during the interim period	No. of shares acquired on exercise of options during the interim period	No. of shares cancelled/ lapsed/ forfeited during the interim period	No. of options outstanding at the end of the interim period	Date granted	Period during which options are exercisable ⁽¹⁾	Exercise price per share	Market value per share at date of grant of options ⁽²⁾	Market value per share on exercise of options ⁽²⁾
Directors										
Mr. Zhu Xiaokun	500,000	-	-	-	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	-
Mr. Wu Suojun	867,000	-	-	-	867,000	18 August 2014	19 August 2014 to 18 August 2019	HK\$1.78	HKD1.78	-
	800,000	-	-	-	800,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
	800,000	-	-	-	800,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
Mr. Yan Ronghua	300,000	-	-	-	300,000	18 August 2014	19 August 2014 to 18 August 2019	HK\$1.78	HKD1.78	-
	500,000	-	-	-	500,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
	500,000	-	-	-	500,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
Mr. Jiang Guangqing	300,000	-	-	-	300,000	18 August 2014	19 August 2014 to 18 August 2019	HK\$1.78	HKD1.78	-
	300,000	-	-	-	300,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
	300,000	-	-	-	300,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
Mr. Lee Cheuk Yin, Dennis	150,000	-	-	-	150,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
	150,000	-	-	-	150,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
Mr. Gao Xiang	150,000	-	-	-	150,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
	150,000	-	-	-	150,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
Mr. Wang Xuesong	150,000	-	-	-	150,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
	150,000	-	-	-	150,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
Employees	20,180,000	-	-	-	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HK\$1.78	HKD1.78	-
Employees	27,950,000	-	-	-	27,950,000	11 January 2018	31 March 2019 to 31 December 2019	HK\$1.50	HK\$1.29	-
Employees	27,950,000	-	-	-	27,950,000	11 January 2018	31 March 2020 to 31 December 2020	HK\$1.50	HK\$1.29	-
	82,147,000	-	-	-	82,147,000					

Report of the Directors

The options granted to the Directors are registered under the names of the Directors who are also the beneficial owners.

Note (1):

For the share options granted on 18 August 2014, such share options granted do not contain any minimum period for which an option must be held before it can be exercised.

For the share options granted on 11 January 2018, such share options granted shall vest in the grantees in accordance with the table below:

Vesting Date	Percentage of shares options
If the consolidated audited net profit of the Company for the year ended 31 December 2018 represents an increase of 50% or more as compared to that of the year ended 31 December 2017, the Vesting Date will be 31 March 2019.	50% of the total number of share options granted
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, the Vesting Date will be 31 March 2020.	50% of the total number of share options granted

Note (2):

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

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

During the Reporting Period, the market price range of the Company's shares is HK\$1.43 to 2.50. As at the date of 30 June 2019, 22,147,000 of ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the 2007 Share Option Scheme with the exercise price is HK\$1.78 and 30,000,000 ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the Share Option Scheme with the exercise price of HK\$1.50.

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 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 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.

Report of the Directors

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

FACILITIES AGREEMENT IMPOSING A SPECIFIC PERFORMANCE OBLIGATION ON THE CONTROLLING SHAREHOLDER OF THE COMPANY

On 14 May 2019, the Company (as borrower) and a bank entered into a facilities agreement (the "Facilities Agreement") of up to an aggregate amount of US\$30,500,000 (the "Facilities"). The Facilities are unsecured and interest bearing with any outstanding amounts to be repaid in full on the date falling three years from the date of the Facilities Agreement. Pursuant to the Facilities Agreement, Mr. Zhu Xiaokun and Ms. Yu Yumei, the controlling shareholders of the Company, undertake to maintain beneficiary interests (direct and indirect) of no less than 30% shareholdings of the Company as long as the Company has facility at the bank (the "Specific Performance Obligation"). As at the date of this report, Mr. Zhu Xiaokun and Ms. Yu Yumei beneficially own approximately 32.35% of the issued share capital of the Company. Breach of the Specific Performance Obligation may lead to the bank declaring the commitments to be cancelled and/or declaring all outstanding amounts together with interest accrued and all other sums payable by the Company to be immediately due and payable.

By order of the Board

20 August 2019

Independent Review Report



Review report to the board of directors of Tiangong International Company Limited

for the six months ended 30 June 2019

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 25 to 52 which comprises the consolidated statement of financial position of Tiangong International Company Limited as at 30 June 2019 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

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

20 August 2019

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 (unaudited)

	Note	Six months ended 30 June	
		2019 RMB'000	2018 RMB'000
Revenue	3	2,806,575	2,347,657
Cost of sales		(2,450,451)	(2,038,311)
Gross profit		356,124	309,346
Other income	4	11,562	16,260
Distribution expenses		(46,232)	(50,901)
Administrative expenses		(63,040)	(72,560)
Other expenses	5	(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	6(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	6	173,117	107,024
Income tax	7	(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)	8		
Basic		0.059	0.036
Diluted		0.059	0.036

The notes on pages 32 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17(a).

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 RMB'000	2018 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

The notes on pages 32 to 52 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2019 (unaudited)

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	9	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	10	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	11	1,855,466	1,994,287
Trade and other receivables	12	2,394,332	2,351,841
Pledged deposits	13	620,500	464,500
Time deposits		575,568	717,414
Cash and cash equivalents	14	577,371	583,235
		6,027,376	6,112,759
Current liabilities			
Interest-bearing borrowings	15	2,339,238	2,284,602
Trade and other payables	16	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	15	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 RMB'000	At 31 December 2018 RMB'000
Capital and reserves			
Share capital	17	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

Approved and authorised for issue by the board of directors on 20 August 2019.

Zhu Xiaokun
Director

Yan Ronghua
Director

The notes on pages 32 to 52 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 (unaudited)

Note	Attributable to equity shareholders of the Company												Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000		
Balance at 31 December 2017	40,477	1,602,218	492	70,595	91,925	(57,076)	53,975	-	566,221	1,790,817	143,321	4,302,965	
Impact on initial application of IFRS 9	-	-	-	-	-	-	(53,975)	53,975	-	(31,897)	-	(31,897)	
Balance at 1 January 2018	40,477	1,602,218	492	70,595	91,925	(57,076)	-	53,975	566,221	1,758,920	143,321	4,271,068	
Changes in equity for the six months ended 30 June 2018													
Profit for the period	-	-	-	-	-	-	-	-	-	84,441	3,490	87,931	
Other comprehensive income	-	-	-	-	-	(1,535)	-	(9,520)	-	-	-	(11,055)	
Total comprehensive income	-	-	-	-	-	(1,535)	-	(9,520)	-	84,441	3,490	76,876	
Dividends approved in respect of the previous year	17(a)	-	-	-	-	-	-	-	-	(100,183)	-	(100,183)	
Shares allotment		4,765	381,884	-	-	-	-	-	-	-	-	386,649	
Equity settled share-based transactions	17(b)	-	-	-	5,031	-	-	-	-	-	-	5,031	
Balance at 30 June 2018	45,242	1,984,102	492	75,626	91,925	(58,611)	-	44,455	566,221	1,743,178	146,811	4,639,441	
Balance at 1 July 2018	45,242	1,984,102	492	75,626	91,925	(58,611)	-	44,455	566,221	1,743,178	146,811	4,639,441	
Changes in equity for the six months ended 31 December 2018													
Profit for the period	-	-	-	-	-	-	-	-	-	174,394	4,645	179,039	
Other comprehensive income	-	-	-	-	-	(2,027)	-	1,475	-	-	-	(552)	
Total comprehensive income	-	-	-	-	-	(2,027)	-	1,475	-	174,394	4,645	178,487	
Transfer to reserve		-	-	-	-	-	-	-	32,577	(32,577)	-	-	
Equity settled share-based transactions	17(b)	-	-	-	5,032	-	-	-	-	-	-	5,032	
Balance at 31 December 2018	45,242	1,984,102	492	80,658	91,925	(60,638)	-	45,930	598,798	1,884,995	151,456	4,822,960	

Consolidated Statement of Changes in Equity

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

	Attributable to equity shareholders of the Company												Total equity RMB'000	
	Note							Fair value		PRC		Non-		
		Share capital RMB'000	Share premium RMB'000	Share redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	statutory reserve RMB'000	Retained earnings RMB'000	controlling interests RMB'000		
Balance at 1 January 2019		45,242	1,984,102	492	80,658	91,925	(60,638)	-	45,930	598,798	1,884,995	151,456	4,822,960	
Changes in equity for the six months ended 30 June 2019														
Profit for the period		-	-	-	-	-	-	-	-	-	149,468	4,231	153,699	
Other comprehensive income		-	-	-	-	-	(319)	-	10,965	-	-	-	10,646	
Total comprehensive income		-	-	-	-	-	(319)	-	10,965	-	149,468	4,231	164,345	
Dividends approved in respect of the previous year	17(a)	-	-	-	-	-	-	-	-	-	(90,410)	-	(90,410)	
Equity settled share-based transactions	17(b)	-	-	-	2,129	-	-	-	-	-	-	-	2,129	
Balance at 30 June 2019		45,242	1,984,102	492	82,787	91,925	(60,957)	-	56,895	598,798	1,944,053	155,687	4,899,024	

The notes on pages 32 to 52 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019 (unaudited)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	426,806	217,102
Tax paid	(6,827)	(10,815)
Net cash generated from operating activities	419,979	206,287
Investing activities		
Payment for the purchase of property, plant and equipment and lease prepayments	(286,771)	(131,169)
Other cash flows used in investing activities	(30,690)	(315,113)
Net cash used in investing activities	(317,461)	(446,282)
Financing activities		
Proceeds from new interest-bearing borrowings	2,504,919	2,443,109
Repayment of interest-bearing borrowings	(2,449,915)	(2,236,905)
Dividend paid to equity shareholders of the Company	(90,410)	(100,183)
Proceeds from shares allotment	–	386,649
Interest paid	(71,497)	(67,204)
Net cash (used in)/generated from financing activities	(106,903)	425,466
Net (decrease)/increase in cash and cash equivalents	(4,385)	185,471
Cash and cash equivalents at 1 January	583,235	219,798
Effect of foreign exchange rates changes	(1,479)	(129)
Cash and cash equivalents at 30 June	577,371	405,140

The notes on pages 32 to 52 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

1 BASIS OF PREPARATION

This interim financial report of Tiangong International Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 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 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 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 is included on page 24.

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

2 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.

3 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 3(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 3(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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

3 REVENUE AND SEGMENT REPORTING (continued)

(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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

	Six months ended 30 June 2018					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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

Revenue	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Profit	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
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

Assets	At 30 June	At 31 December
	2019 RMB'000	2018 RMB'000
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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Liabilities	At 30 June	At 31 December
	2019	2018
	RMB'000	RMB'000
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.

Revenue	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

4 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 gains	2,125	3,526
Dividends 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.

5 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 losses 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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

6 PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Note	Six months ended 30 June	
		2019 RMB'000	2018 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	9	(16,023)	(12,440)
Finance expenses		71,248	67,178
Net finance costs		61,528	63,531

(b) Other items

	Note	Six months ended 30 June	
		2019 RMB'000	2018 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	11	2,777	220
Provision of loss allowance for trade receivables	12	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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

7 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.

8 EARNINGS PER SHARE

(a) Basic earnings per share

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of buildings and machinery at a cost of RMB248,180,000 (six months ended 30 June 2018: RMB131,169,000), excluding capitalised borrowing costs of RMB16,023,000 (six months ended 30 June 2018: RMB12,440,000). There were no material disposals of property, plants and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)			
— Listed in the PRC	(i)	93,859	80,959
— Unlisted equity securities	(ii)	19,065	19,065
		112,924	100,024
Financial assets measured at fair value through profit or loss (FVPL)			
— Contributions in unlisted equity fund		20,000	—
		132,924	100,024

Notes:

- (i) The listed equity securities are interests in Bank of Jiangsu Co., Ltd., a company listed on the Mainboard of the Shanghai Stock Exchange ("SESH") and interests in JM Digital Steel Inc., a company listed on the National Equities Exchange and Quotations System ("NEEQ"). The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of RMB800,000 were received from these investments during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).
- (ii) The unlisted equity securities are interests in Xiamen Chuangfeng Yizhi Investment Management Partnership, a partnership incorporated in the PRC and interests in Nanjing Xiaomuma Technology Co., Ltd., a company incorporated in the PRC. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received from these investments during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

11 INVENTORIES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials	46,985	76,244
Work in progress	817,497	863,034
Finished goods	990,984	1,055,009
	1,855,466	1,994,287

During the six months ended 30 June 2019, the Group recognised a write-down of RMB2,777,000 (six months ended 30 June 2018: RMB220,000) against those inventories with net realisable value lower than carrying value. The write-down is included in Cost of sales in the consolidated statement of profit or loss and other comprehensive income.

12 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 as disclosed in Note 15.

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For the six months ended 30 June 2019 (unaudited)

12 TRADE AND OTHER RECEIVABLES (continued)

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.

13 PLEDGED DEPOSITS

As at 30 June 2019, bank deposits of RMB620,500,000 (2018: RMB464,500,000) have been pledged to banks as security for bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

14 CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 30 June 2019 are cash at bank and on hand.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

15 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current			
Secured bank loans	(i)	268,736	332,765
Unsecured bank loans	(ii)	1,273,539	1,205,365
Current portion of non-current unsecured bank loans		796,963	746,472
		2,339,238	2,284,602
Non-current			
Unsecured bank loans	(iii)	1,696,508	1,645,649
Less: Current portion of non-current unsecured bank loans		(796,963)	(746,472)
		899,545	899,177
		3,238,783	3,183,779

Notes:

- (i) The current bank loans were secured by certain trade receivables and sales contracts at annual interest rates ranging from 0.90% to 3.92% (2018: 0.90% to 4.20%) per annum and were repayable within one year.
- (ii) Current unsecured bank loans carried interest at annual rates ranging from 1.00% to 5.22% (2018: 1.55% to 5.22%) per annum and were repayable within one year.
- (iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.92% to 5.14% (2018: 2.65% to 5.13%) per annum.

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 year	796,963	746,472
Over 1 year but within 2 years	699,322	899,177
Over 2 years but less than 3 years	200,223	–
	1,696,508	1,645,649

As at 30 June 2019, the Group's banking facility with one bank is subject to the fulfilment of a covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. As at 30 June 2019, none of the covenants relating to drawn down facilities had been breached (2018: None).

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For the six months ended 30 June 2019 (unaudited)

16 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

17 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.

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For the six months ended 30 June 2019 (unaudited)

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings), plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

The Group's adjusted net debt-to-capital ratios at 30 June 2019 and 31 December 2018 were as follows:

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current liabilities:			
Interest-bearing borrowings	15	2,339,238	2,284,602
Non-current liabilities:			
Interest-bearing borrowings	15	899,545	899,177
Total debt		3,238,783	3,183,779
Add: Proposed dividends		–	90,592
Less: Cash and cash equivalents	14	(577,371)	(583,235)
Adjusted net debt		2,661,412	2,691,136
Total equity		4,899,024	4,822,960
Less: Proposed dividends		–	(90,592)
Adjusted capital		4,899,024	4,732,368
Adjusted net debt-to-capital ratio		54%	57%

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For the six months ended 30 June 2019 (unaudited)

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

The following presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2019 RMB'000	Fair value measurement at 30 June 2019 categorised into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	72,600	72,600	—	—
— Listed equity securities — NEEQ	21,259	—	—	21,259
— Unlisted equity securities	19,065	—	—	19,065
— Contributions in unlisted equity fund	20,000	—	—	20,000
Trading securities:				
— Listed equity securities	4,139	4,139	—	—

	Fair value at 31 December 2018 RMB'000	Fair value measurement at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	59,700	59,700	—	—
— Listed equity securities — NEEQ	21,259	—	—	21,259
— Unlisted equity securities	19,065	—	—	19,065
Trading securities:				
— Listed equity securities	1,482	1,482	—	—

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2019 (unaudited)

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial assets measured at fair value (continued)

Fair value of the equity securities listed on the NEEQ, which do not have quoted price in active markets, and that of unlisted equity securities mentioned in Note 10 is determined using the price/earning or price/book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 RMB'000
Unquoted equity securities:	
At 1 January and 30 June	40,324
Contributions in unlisted equity fund:	
At 1 January	–
Payment for purchases	20,000
At 30 June	20,000

Any gains or losses arising from the remeasurement of the Group's equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

Any gains or losses arising from the remeasurement of the Group's contributions in unlisted equity fund are recognised in the "Other income" or "Other expenses" line items in the consolidated statement of profit or loss.

(b) Fair values of financial assets and liabilities carried at other than fair value

Except for equity securities set out in Note 10 and trading securities, all financial instruments measured at other than fair value are carried at cost or amortised cost that were not materially different from their fair values as at 30 June 2019 and 31 December 2018.

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19 RELATED PARTY TRANSACTIONS

The Group has transactions with a company controlled by a controlling shareholder (“controlling shareholder’s company”), a company controlled by a close member of a controlling shareholder’s family (“controlling shareholder’s family member’s company”), associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the consolidated interim financial statements, the Group entered into the following related party transactions for the periods presented:

(a) Significant related party transactions

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Lease expenses to:		
Controlling shareholder’s company	–	500

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Purchase of land and buildings:		
Controlling shareholder’s company	100,000	–

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Sales of goods to:		
Joint ventures	151,152	90,703
Associates	155,609	204,678
Controlling shareholder’s family member’s company	6,421	10,107

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

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For the six months ended 30 June 2019 (unaudited)

19 RELATED PARTY TRANSACTIONS (continued)

(b) Amounts due from related parties

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Joint ventures	348,663	305,802
Associates	33,731	49,542
Controlling shareholder's family member's company	768	3,534
	383,162	358,878

(c) Amounts due to related parties

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Associates	2,401	2,374
Joint ventures	32	–
Controlling shareholder's family member's company	36,607	–
	39,040	2,374

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20 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	80,227	90,265
Authorised but not contracted for	260,512	368,332
	340,739	458,597

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties RMB'000
Within 1 year	1,516
After 1 year but within 5 years	1,301
	2,817

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach.

21 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.