



天工國際有限公司\*

TIANGONG INTERNATIONAL COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

Stock Code : 826



## 2015 Annual Results Announcement



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# Agenda

**1. Financial Highlights**

**2. Business Review**

**3. Development Strategies**

**4. Q&A Session**



# Financial Highlights



## 2015 Annual Results Overview

- In 2015, the extremely severe environment of the global economic situation and sharp decline in average selling price of steel products globally caused various economic indicators to decline.
- Tiangong made achievements in different aspects through its strategy of moving forward while maintaining steady and stabilizing quality and efficiency, laying a foundation for robust growth in various economic indicators after improvement in economic environment.
- The Group placed more emphasis on export sales to overseas markets in the traditional core segment to supplement the low tide in the domestic market and recorded an increase in export revenue compared to 2014.
- At the same time, the Group continued to develop a broader range of titanium alloy products which led to satisfactory results in this rapidly growing segment.

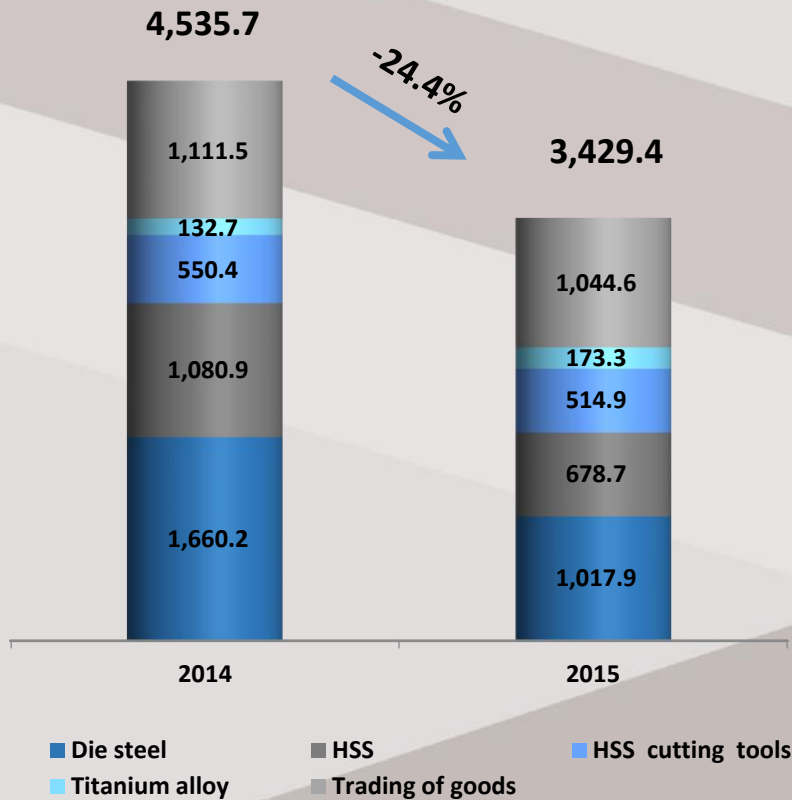
12 months ended 31 Dec (RMB million)	2015	2014	Change
Revenue	<b>3,429.4</b>	4,535.7	<b>-24.4%</b>
Revenue from key business segments (excl. trading of goods)	<b>2,384.8</b>	3,424.2	<b>-30.4%</b>
Gross profit	<b>391.3</b>	908.8	<b>-56.9%</b>
Gross profit margin	<b>11.4%</b>	20.0%	<b>-8.6pp</b>
Profit attributable to shareholders	<b>72.6</b>	463.5	<b>-84.3%</b>



# Sales Analysis

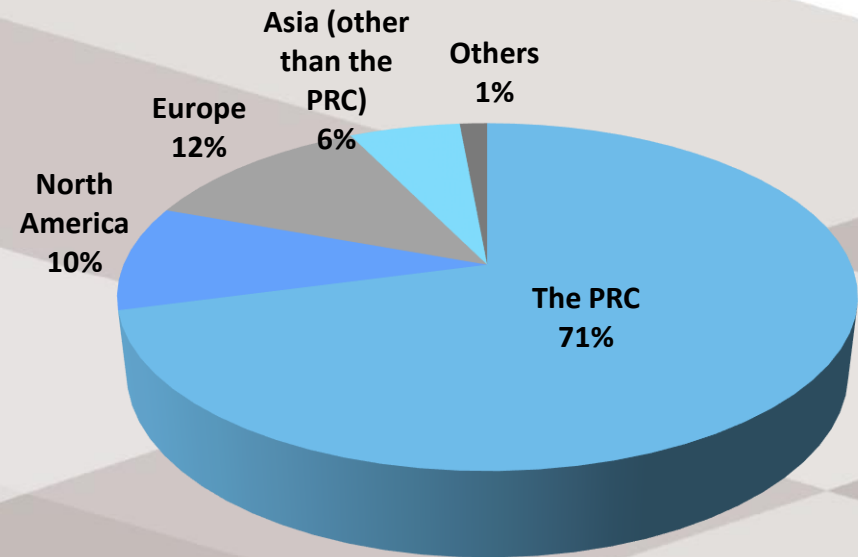
## Product Mix in 2015

RMB million



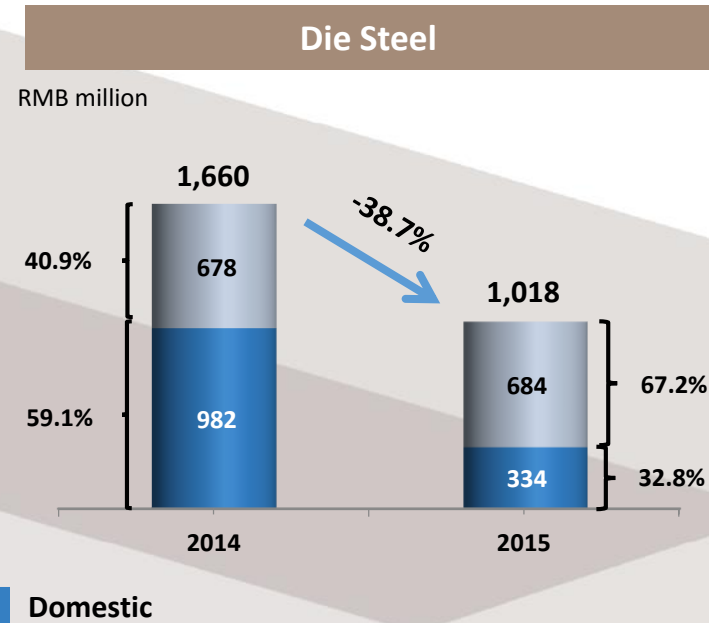
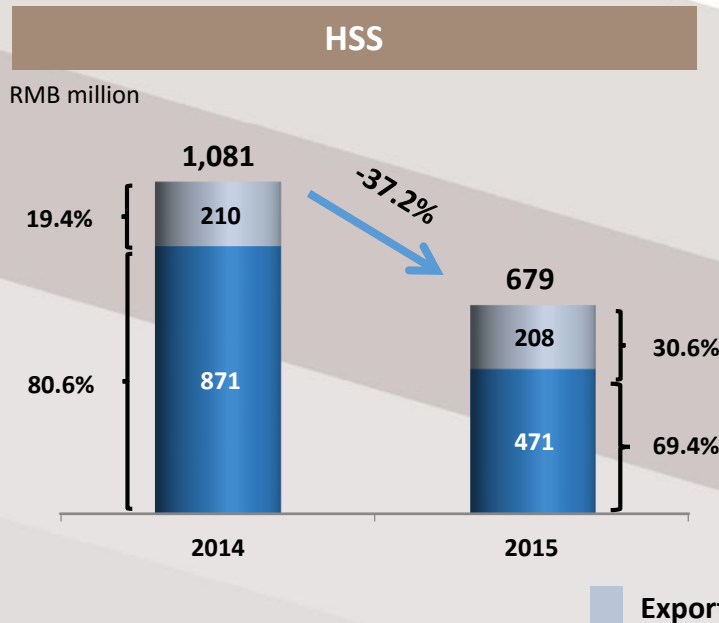
## Geographical Breakdown in 2015

RMB million





## Sales Analysis – By Geographical



- In 2015, the slowing down of economic growth in China, shrinking domestic demand towards HSS and the decline in its average selling price have caused domestic revenue from HSS and die steel to drop during the Year.
- During the Year, export volume increased by 15%. However, the weakening Euro and the decrease in global average selling price have offset the effect on the increased sales volume.

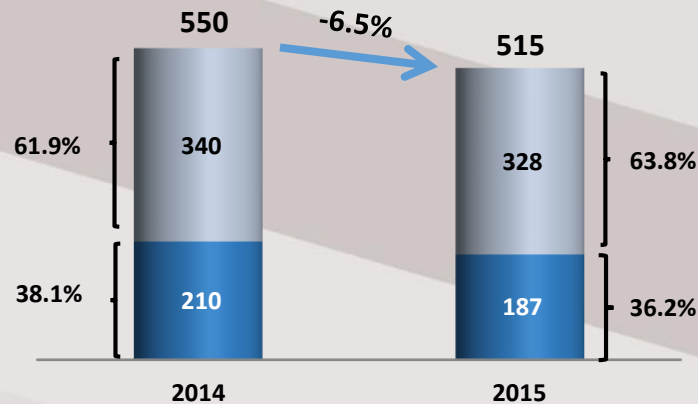




## Sales Analysis – By Geographical

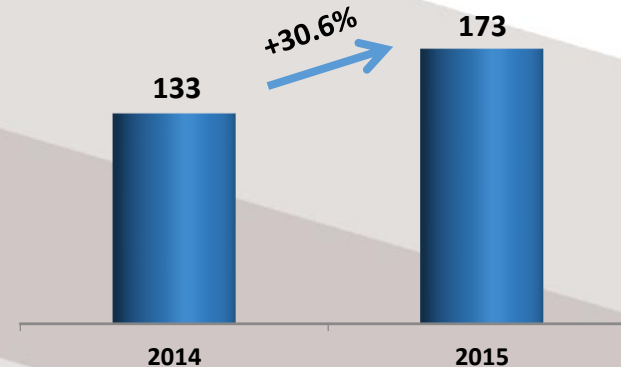
### HSS Cutting Tools

RMB million



### Titanium Alloy

RMB million



■ Export ■ Domestic

- In 2015, revenue of HSS cutting tools generated from domestic market was affected by the significant decrease in the average selling price, while average selling price of HSS cutting tools in overseas markets remained relatively stable.
- Titanium alloy segment has been a rapidly developing segment among the Group's products, recorded a remarkable increase in revenue during the Year. This was mainly attributable to:
  - The Group's effort in market development by offering a broad range of products in titanium and titanium alloys.
  - The Group's offering of a broader range of products with higher grades and specifications to meet demands from various industries.





## Sales Analysis – Price and GP Margin

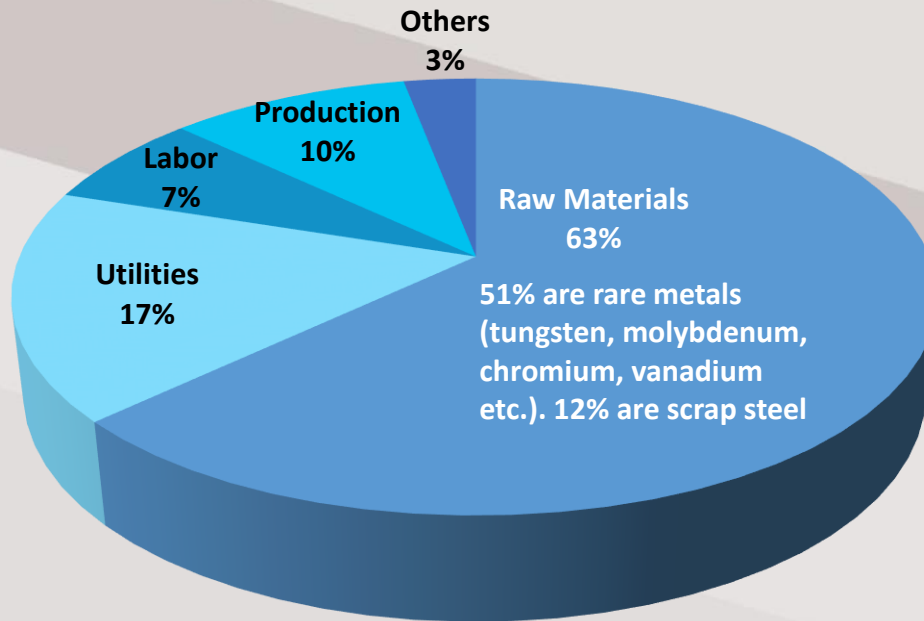
	ASP and Gross Profit Margin							
	Sales Volume			Average Selling Price (RMB)			Gross Profit Margin	
	2015	2014	Change	2015	2014	Change	2015	2014
Die steel	91,501 tons	123,189 tons	-25.7%	11,124	13,477	-17.5%	15.2%	31.5%
HSS	22,801 tons	28,060 tons	-18.7%	29,765	38,521	-22.7%	19.4%	28.1%
HSS cutting tools	267,414 pc/set	250,257 pc/set	+6.9%	1.93	2.20	-12.5%	15.4%	11.1%
Titanium alloy	3,337 tons	2,468 tons	+35.2%	51,944	53,777	-3.4%	13.6%	12.9%

- In 2015, revenue generated from HSS and DS decreased due to the slowdown in China's economic growth, which led to a decline in demand and lower average selling prices of HSS and Die Steel.
- Sales volume of HSS cutting tools increased by 6.9%, offsetting the effect caused by decline in average selling price. During the Year, gross profit margin of HSS cutting steel increased by 4.3 percentage points to 15.4%, due to an adjustment in sales portfolio.
- Gross profit of titanium alloy segment decreased by 0.7 percentage point, mainly attributable to the increase in sales volume causing the amortization of fixed costs to more units of goods sold, leading to a decrease in per unit costs and the decrease in raw material costs.

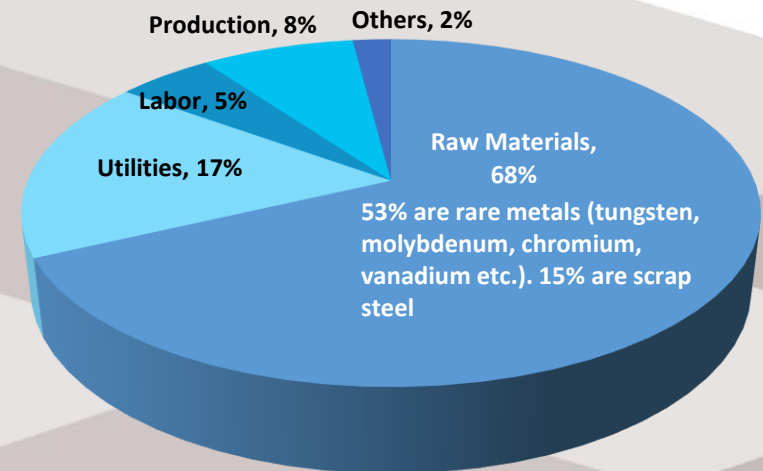


## Cost Structure

2015



2014





## Key Financial Figures

(RMB '000) As at 31 Dec	2015	2014	Change
Net assets	<b>3,876,287</b>	3,929,821	-1.4%
Net assets per share (RMB)	<b>1.75</b>	1.77	-1.4%
Cash and cash equivalents (including time deposits & pledged deposits)	<b>1,168,875</b>	1,128,873	+3.5%
Net debt <sup>1</sup>	<b>1,897,999</b>	1,847,179	+2.8%
Net gearing <sup>2</sup>	<b>49.0%</b>	47.0%	+2.0pp
Inventory turnover days	<b>231 days</b>	198 days	+33 days
Trade receivable turnover days	<b>195 days</b>	138 days	+57 days
Trade payable turnover days	<b>143 days</b>	108 days	+35 days

(RMB '000) As at 31 Dec	2015	2014	Change
Other income	<b>19,324</b>	26,517	-27.1%
EBITDA	<b>416,340</b>	859,837	-51.6%
Effective tax rate	<b>5.6%</b>	6.1%	-0.5pp

1) Net Debt = total bank borrowings – pledged deposits – time deposits – cash and cash equivalents

2) Net Gearing = net debt / net assets



# Business Review



## Facilitated the Development of Key Projects

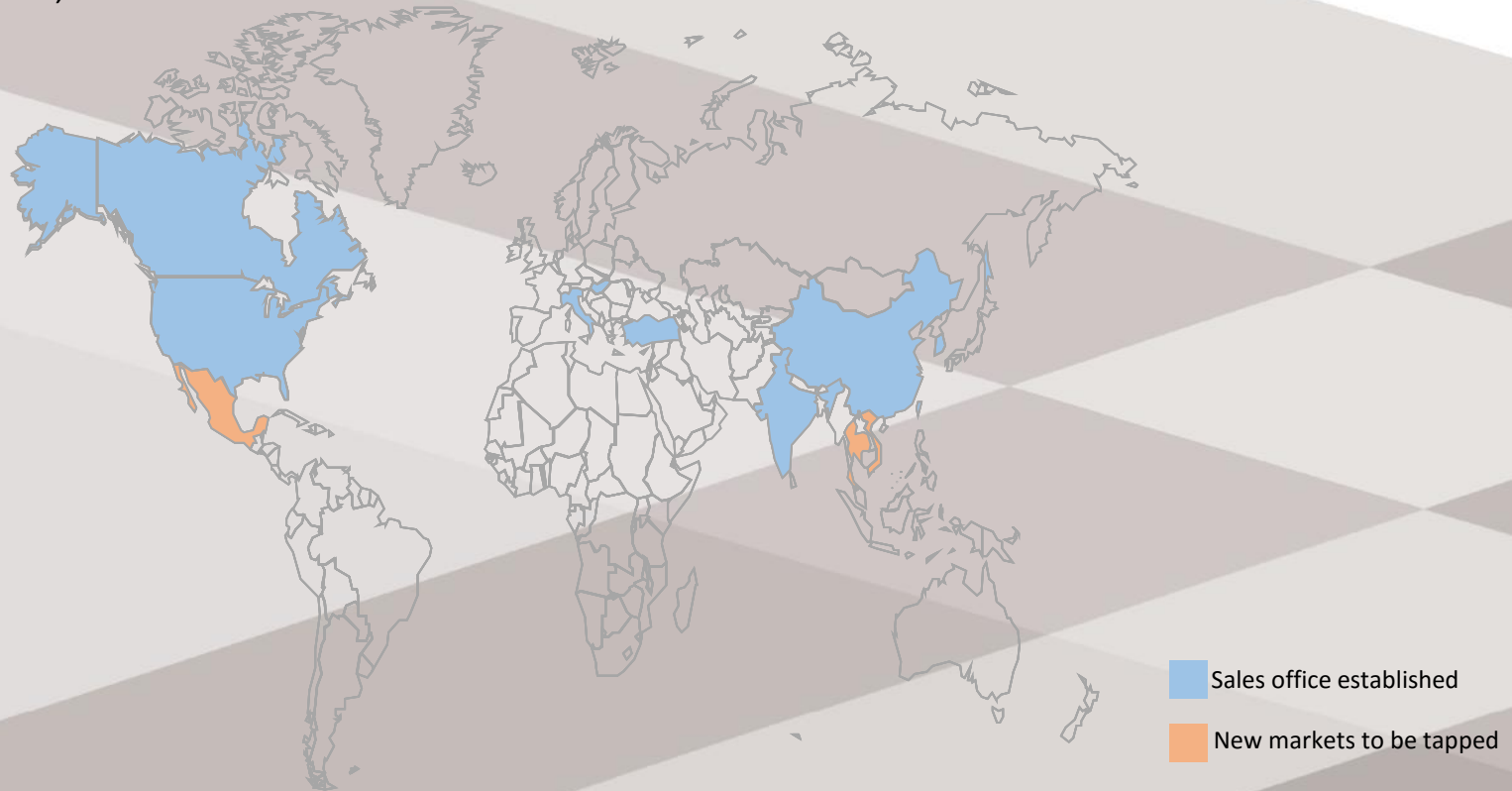
- Completed carbide cutting tools project and has been put into production, setting an important milestone for the transformation of ordinary cutting tools industry into modern cutting tools, further elevating Tiangong's leading position in the cutting tools industry.
- Completed capacity expansion project for titanium alloy plant, further enhancing production facilities of titanium alloy and improving overall productivity of titanium alloy, laying a foundation for increasing production capacity to 10,000 tons per year.
- Constructed the steel wire pulling and milling workshop and has commenced production, successfully improved production efficiency, lowered production costs, shortened production cycle, stabilized product quality and increased finished product rate, further satisfying demands from domestic and overseas markets.
- Completed the improvement of remelting project and tool steel ingot project also completed construction and commenced production. Quality of steel ingots were improved and set a strong foundation for the production of world-class tool steel ingots.





## Accelerate Market Expansion

- In market expansion, following setting up sales subsidiaries in the United States, South Korea, Czech Republic, Italy, India, Singapore, and Taiwan, we formally established “Tiangong Middle East Special Steel Limited” in Istanbul, Turkey on 29 April 2015 to open up channel for the Company to expand Asian and European markets and increasing the number overseas sales office to 8.
- Our sales office in Canada has commenced operation. We will further plan to establish sales offices in Canada, Mexico, Thailand, and Vietnam. The number of sales office will reach a total of 12.



■ Sales office established  
■ New markets to be tapped





## Actively Promoted the Development of New Products

- Successfully overcame the challenges in the manufacturing of 150KG titanium wire, filling in the gap in China's titanium wire manufacturing industry with this breakthrough technology and successfully developed titanium wire products.
- Successfully produced H11 hot-work die steel module forgings (W850mmxH450mm), further satisfying market demands towards large die steel products.
- Successfully developed High tropism hot-work die steel and high strength & wear resistant cold-work die steel” , and was recognised as Hi-Tech Products of Jiangsu Province
- Successfully manufactured S7 and A2 large-scale round bar steel, extending production from 300mm to 450mm; also manufactured D2 large-scale round bar steel, with production extended from 500mm to 650mm, satisfying market demand.
- Developed new double-edge ground drill, five-slots screw taps, twist drill bits, in particular the development of bimetallic screw taps, filling in the gap in bimetallic cutting tools industry.







## Market Recognition

- Passed the assessment of “Chinese Model Enterprises with Excellent Export Products Quality in Hardware Tools Industry”, setting new management standards for enterprises in Jiangsu Province
- Jiangsu Tiangong Technology Co., Ltd. successfully listed on NEEQ on 3 December 2015 under the name of “Tiangong Technology”; Stock Code: 834549, releasing the Group’s corporate value and providing a financing platform for business development.
- Ranked 4<sup>th</sup> in die steel production and annual production capacity in 2014 World’s Top Special Steel Companies, ranking behind Austria’s Böhler Special Steel (“BUAG”) and Germany’s Schmolz+Bickenbach (“S+B”).
- Concluded cooperation with the top four titanium manufacturing enterprises in China, namely Baoti, Luoyang Ship Material Research Institute, Hunan Xiangtou Holdings Group and Western Titanium Technologies Co., Ltd., and acquired first order from AVIC Beijing Institute of Aeronautical Materials under China National Aviation Corporation (Group) Limited, representing a milestone of Tiangong International entering the high-end steel product segment.
- Obtained Military Confidential Qualification Certification, planning to complete Military License Certification, Military Standard Quality System Certification and Production Permit of Arms and Equipment by December 2016, officially entering the military industry for the manufacturing of military used steel products.





# Development Strategies



## 2016年工作亮点





# Q&A Session



# Appendix



# Consolidated Income Statement

	12 months ended 31 Dec	
RMB '000	2015	2014
Revenue	3,429,397	4,535,670
Cost of sales	<u>(3,038,061)</u>	<u>(3,626,838)</u>
<b>Gross profit</b>	<b>391,336</b>	<b>908,832</b>
Other income	19,324	26,517
Distribution expenses	(67,855)	(70,500)
Administrative expenses	(115,404)	(123,834)
Other expenses	<u>(14,154)</u>	<u>(58,637)</u>
<b>Profit from operations</b>	<b>213,247</b>	<b>682,378</b>
Finance income	8,521	9,337
Finance expenses	<u>(149,240)</u>	<u>(151,236)</u>
<b>Net finance costs</b>	<b>(140,719)</b>	<b>(141,899)</b>
Share of profit (losses) of associates	<u>5,857</u>	<u>(2,702)</u>
Share of profits of joint ventures	<u>6,820</u>	<u>6,391</u>
<b>Profit before income tax</b>	<b>85,205</b>	<b>544,168</b>
Income tax expense	<u>(13,074)</u>	<u>(81,421)</u>
<b>Profit for the period</b>	<b>72,131</b>	<b>462,747</b>



## Consolidated Income Statement (cont.)

	12 months ended 31 Dec	
RMB '000	2015	2014
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>72,623</b>	463,466
Non-controlling interests	<b>(492)</b>	(719)
<b>Profit for the period</b>	<b>72,131</b>	462,747
<b>Earnings per share (RMB)</b>		
Basic	<b>0.033</b>	0.230
Diluted	<b>0.033</b>	0.230





# Consolidated Balance Sheet

	As at 31 Dec	As at 31 Dec
RMB '000	2015	2014
<b>Non-current assets</b>		
Property, plant and equipment	3,243,542	2,998,727
Lease prepayments	74,372	75,512
Goodwill	21,959	22,086
Interest in associates	38,503	33,997
Interest in joint ventures	24,509	12,998
Other financial assets	10,000	10,000
Deferred tax assets	20,089	15,337
	<b>3,432,974</b>	<b>3,168,657</b>
<b>Current assets</b>		
Inventories	1,886,643	1,952,781
Trade and other receivables	1,895,480	2,114,526
Pledged deposits	445,389	404,400
Time deposits	400,000	543,100
Cash and cash equivalents	323,486	181,373
	<b>4,950,998</b>	<b>5,196,180</b>
<b>Current liabilities</b>		
Interest-bearing borrowings	2,580,896	2,342,903
Trade and other payables	1,347,335	1,340,910
Current taxation	-	60,240
Deferred income	1,162	1,162
	<b>3,929,393</b>	<b>3,745,215</b>
<b>Net current assets</b>	<b>1,021,605</b>	<b>1,450,965</b>
<b>Total assets less current liabilities</b>	<b>4,454,579</b>	<b>4,619,622</b>



## Consolidated Balance Sheet (cont.)

	As at 31 Dec	As at 31 Dec
RMB '000	2015	2014
<b>Non-current liabilities</b>		
Interest-bearing borrowings	485,978	633,149
Deferred income	48,168	16,543
Deferred tax liabilities	44,146	40,109
	<u>578,292</u>	<u>689,801</u>
<b>Net assets</b>	<u>3,876,287</u>	<u>3,929,821</u>
<b>Capital and reserves</b>		
Share capital	40,167	40,167
Reserves	<u>3,836,120</u>	<u>3,887,758</u>
<b>Total equity attributable to equity shareholders of the Company</b>	<u>3,876,287</u>	<u>3,927,925</u>
<b>Non-controlling interests</b>	<u>-</u>	<u>1,896</u>
<b>Total equity</b>	<u>3,876,287</u>	<u>3,929,821</u>