



天工國際有限公司

TIANGONG INTERNATIONAL COMPANY LIMITED

Stock Code: 826.HK

2015 Interim Results Presentation

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Agenda

1

Financial Highlights

2

Business Review

3

Development Strategies

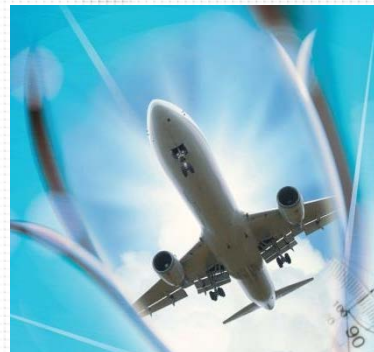
4

Q&A Session





Financial Highlights



Overview of 2015 Interim Results

- In the first half of 2015, the slowdown in China's economic growth led to a decline in domestic demand and in the selling price of the Group's traditional core segment, Die steel and High Speed Steel.
- 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.
- 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.

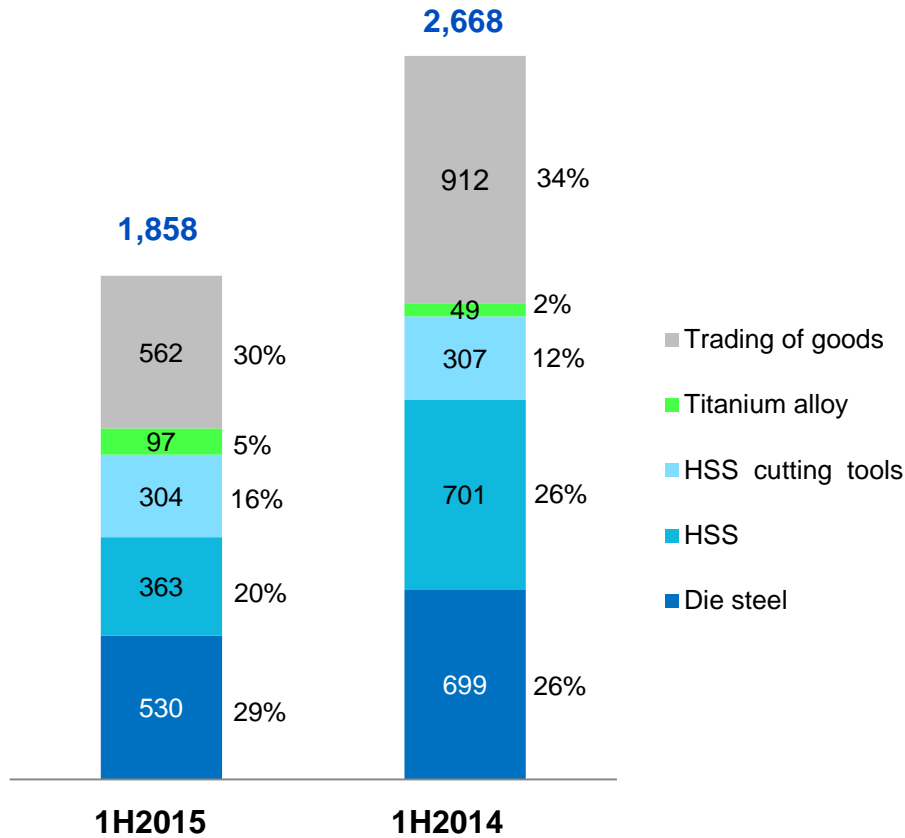
For six months ended 30 June (RMB million)	2015	2014	Change
Revenue	1,858	2,668	-30.4%
Revenue from key business segments (excl. trading of goods)	1,295	1,757	-26.3%
Gross profit	225.7	478.0	-52.8%
Gross profit margin	12.1%	17.9%	-5.8p.p.
Profit attributable to shareholders	60.5	264.7	-77.1%



Sales Analysis

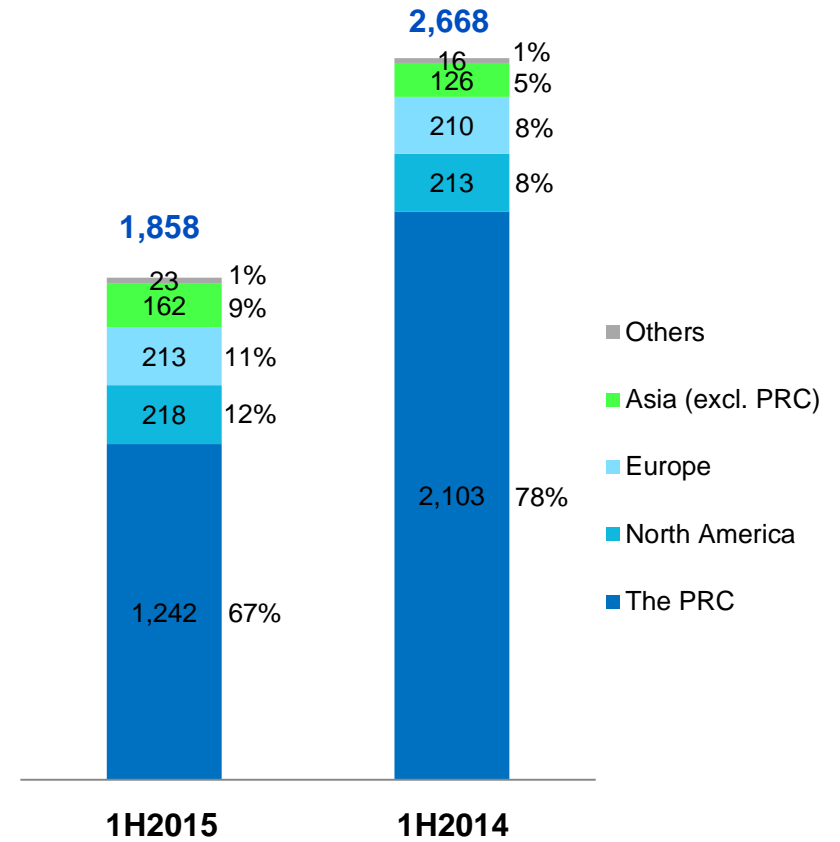
Sales Mix of 1H 2015

RMB million

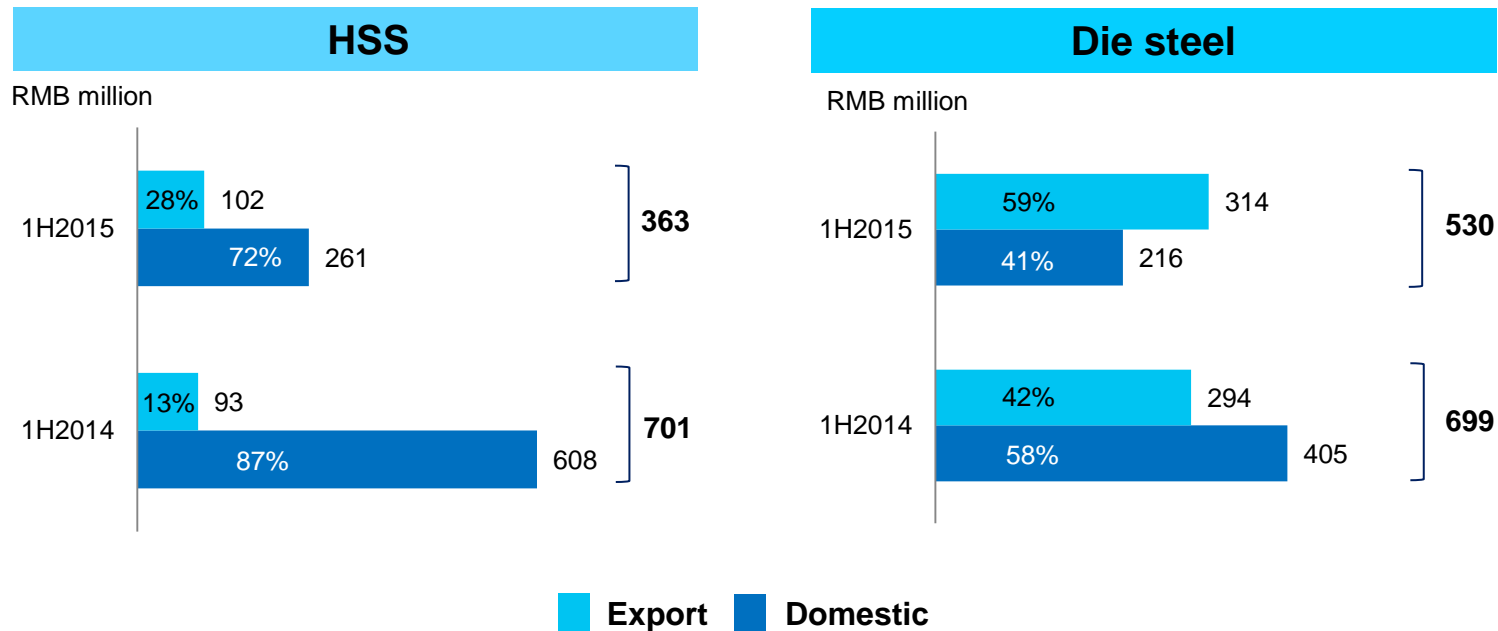


Geographical Mix of 1H 2015

RMB million



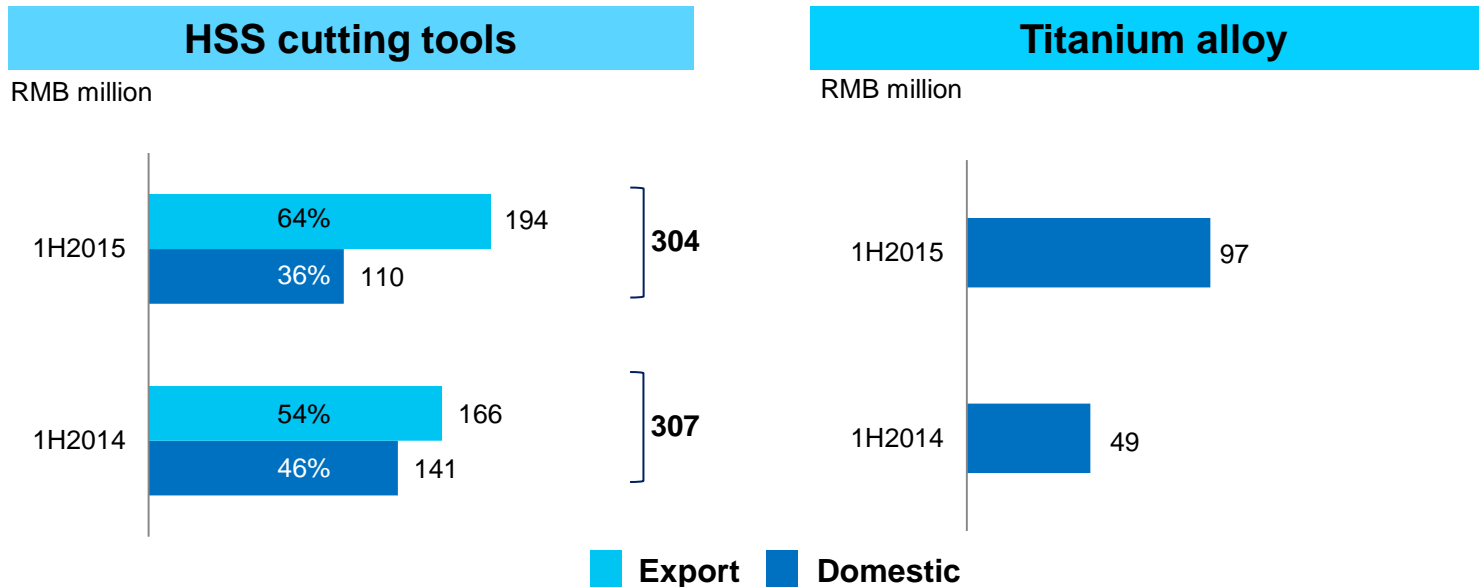
Sales Analysis – by Geographical Region



- In 1H 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 DS.
- With the decline in demand in the domestic market, the Group continued to expand in overseas markets. The Group's export revenue was all denominated in foreign currencies. Due to the depreciation of the Euro, the increase in the Group's export revenue was partially offset.



Sales Analysis – by Geographical Region



- In 1H 2015, the revenue generated from HSS cutting tools was relatively stable. Although the sales volume in both the domestic and overseas markets increased, the decrease in ASP in the domestic market resulted in a net decrease in domestic revenue. A slight increase in the ASP in overseas market contributed an remarkable increase in export revenue.
- Revenue generated from Titanium alloy increased by 97%. The Group achieved rapid growth in this segment by taking advantage of stronger demand and by actively developing a broader range of titanium alloy products. The Group also benefitted from cost reduction due to the increase in production volume and efficiency in the titanium alloy segment.



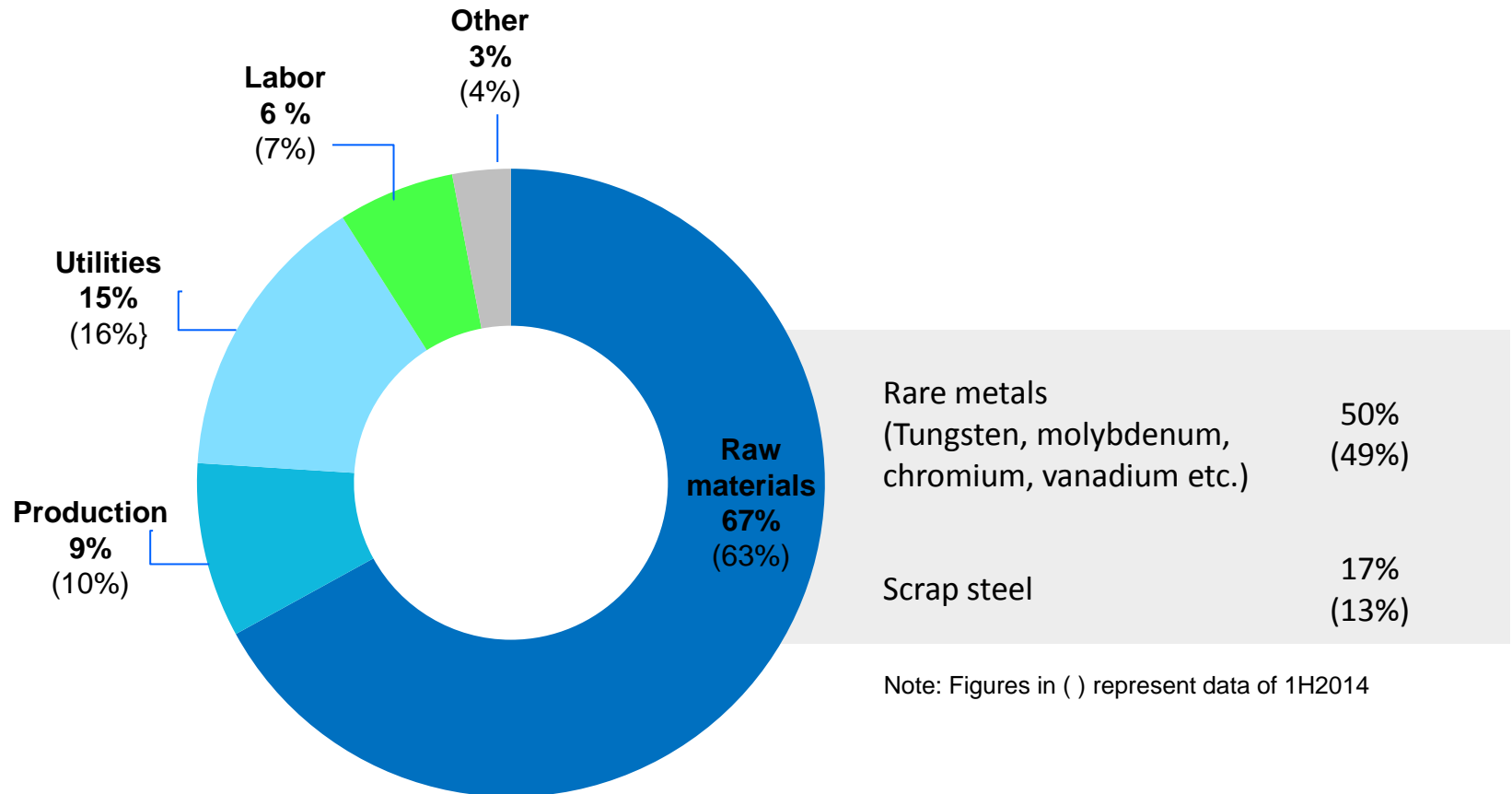
Sales Analysis – by Price and GP Margin

	ASP and Gross Profit Margin							
	Sales Volume			Average Selling Price (RMB)			Gross Profit Margin	
	1H2015	1H2014	Change	1H2015	1H2014	Change	1H2015	1H2014
Die steel	46k tons	52k tons	-10.9%	11,528	13,544	-14.9%	19.0%	32.8%
HSS	12k tons	17k tons	-30.7%	30,287	40,510	-25.2%	18.0%	27.6%
HSS cutting tools	154M Pcs/Set	132M Pcs/Set	16.4%	1.98	2.33	-14.9%	15.5%	15.6%
Titanium alloy	1,798tons	914tons	96.7%	54,133	53,967	0.3%	12.6%	14.9%

- Due to the decline in domestic demand in 1H 2015, which led to a decline in sales and the average selling prices of individual products, the gross margin for DS and HSS decreased.
- The sales volume of HSS cutting tools increased by 16.4%, which offset the effect from the lower average selling price. The gross margin of HSS cutting tools was relatively stable.
- The gross margin of Titanium alloy slightly decreased, mainly due to the increase in prices of the major raw material, sponge titanium, in the first half of 2015.



Cost Structure



Note: Figures in () represent data of 1H2014



Overview of Key Financial Figures

(RMB '000)	2015 As at 30 June	2014 As at 31 December	Change
Net assets	3,896,604	3,929,821	-0.8%
Net assets per share (RMB)	1.76	1.77	-0.6%
Cash and cash equivalents (including time deposits & pledged deposits)	1,071,495	1,128,873	-5.1%
Net debt ¹	2,116,618	1,847,179	14.6%
Net gearing ²	54.3%	47.0%	7.3p.p.
Inventory turnover days	216	198	8
Trade receivable turnover days	197	138	59
Trade payable turnover days	138	108	30

(RMB '000)	2015 As at 30 June	2014 As at 30 June	Change
Other income	11,972	27,411	-56.3%
EBITDA	241,369	469,384	-48.6%
Effective tax rate	18.2%	15.8%	2.4p.p.

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

2) Net Gearing = net debt / net assets



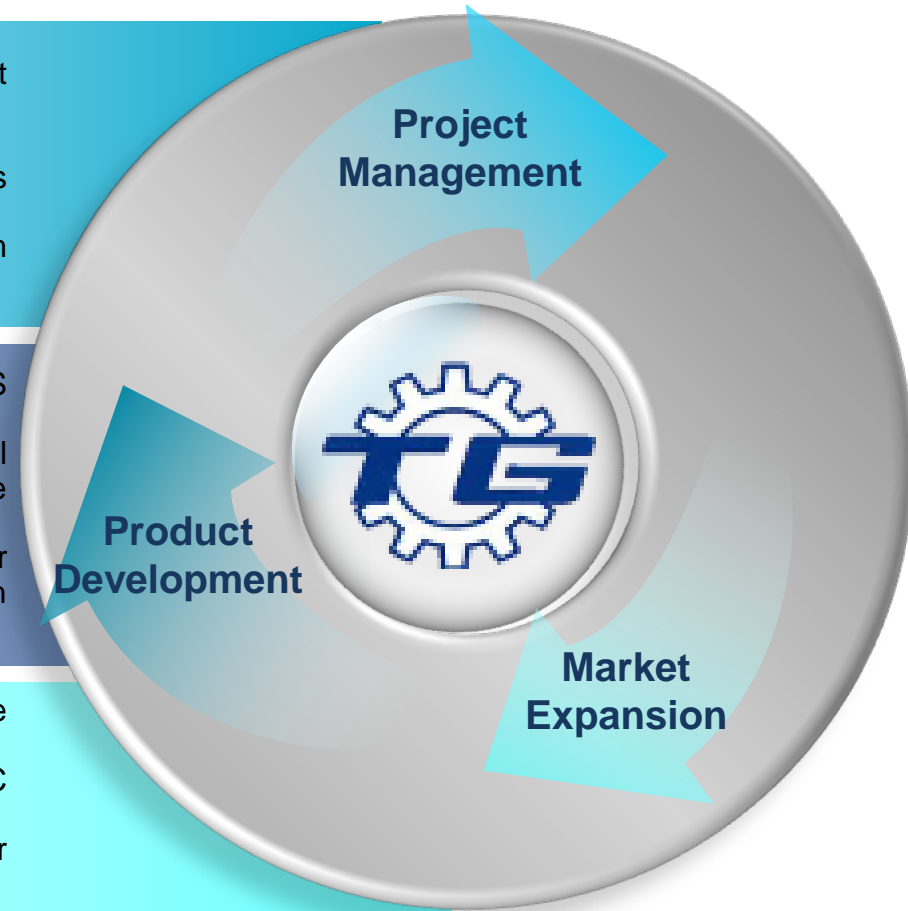


Business Review



Performance Highlights in 1H 2015

- Constructed the steel wire pulling and milling workshop
- Capacity expansion project for titanium alloy plant completed and will soon commence operation
- Completed the improvement of remelting project
- Initiated projects to manufacture DS sheets, HSS sheets and Titanium sheets
- Completed the installation of intelligent monitoring system in more locations
- Promoted the integration of information system
- Started mass production of titanium wire using DS & HSS wire production line
- Successfully developed several new products: 5H12 steel roll, M42 bi-metal blade steel, large scale H11 hot-work die steel module forgings (W850mmxH450mm)
- “High tropism hot-work die steel and high strength & wear resistant cold-work die steel” recognised as Hi-Tech Products of Jiangsu Province.
- Entered into an agreement to establish “Tiangong Middle East Special Steel Limited”
- Become a registered supplier for Central Purchasing, LLC (CPL) high-end tools
- Tiangong’s twisted drills topped the performance tests for Chinese branded twisted drills



Significant Progress in Delivering Key Operation and Management Projects



Production Capacity Enhancement

- **Steel wire pulling and milling workshop was built** and commenced operation
- **Capacity expansion project for titanium alloy plant completed and will soon commence operation.** Production capacity for titanium products will increase to 5,000 tons this year. Tiangong is on track to achieve the goal of becoming the second largest titanium material manufacturer in 3 years.
- **Completed the improvement of remelting project,** providing strong technical support for enhancing the quality of the Group's DS and HSS products.
- **Make steady progress in manufacturing DS sheets, HSS sheets and Titanium sheets.**

Management Efficiency Enhancement

- **Completed the installation of intelligent monitoring system in more locations,** installed more surveillance cameras for monitoring operations in all plants and workshops.
- **Promoted the integration of information system,** initiated big data project and started laying the groundwork.

Product Development and Innovation



Fill a Gap in the Market

- **Successfully manufactured titanium wire using DS & HSS wire production line and commenced mass production**, a breakthrough in titanium wire rod production technology.
- **Successfully developed 5H12 steel roll**, satisfy market need for steel roll, opening up new market for Tiangong.

Technology Breakthrough

- **Successfully explored the production technology for M42 bi-metal blade steel and commenced production.**
- **Successfully developed H11 hot-work die steel module forgings (W850mmxH450mm)**, a new milestone for production of large scale die steel module forgings.

Hi-Tech Product Recognition

- Tiangong's **“High tropism hot-work die steel and high strength & wear resistant cold-work die steel”** recognised as Hi-Tech Products of Jiangsu Province.

Accelerate Market Expansion



Overseas Markets

- **Tiangong and Birlesik (比利时克) entered into an agreement to establish “Tiangong Middle East Special Steel Limited”**, which will help the Group to further explore the Europe and Asia markets. In addition to the Group’s existing sales branches in the US, Korea, Czech Republic, India, Italy, Singapore, Russia and Taiwan, Tiangong has set up 9 overseas sales offices.

Customer Recognition

- **Tiangong became a registered supplier for Central Purchasing, LLC (CPL) high-end tools** after CPL visited Tiangong’s production plants.

Brand Recognition

- **Tiangong’s 8mm twisted drills topped the cutting performance tests for Chinese branded twisted drills** in an event organised by Shanghai Tool Works Co., which further enhanced Tiangong’s brand in the twisted drills market.





Development Strategies



2015 2H Key Business Strategies

- To speed up cooperation with well-known titanium manufacturers and expand production capacity and product varieties. Engage in M&As, strategic investments and other methods to fully develop the titanium business in a bid to expand product usage from industrial use (incl. military & industrial use) to consumer use, such as manufacturing of golf clubs, spectacles frames, titanium pots and cups, etc. Tiangong strives to become the second largest titanium manufacturer in 2-3years.
- To promote online sales and introduce “micromarketing”. Strengthen brand promotion efforts through mobile phones, internet and Wechat platforms in order to stimulate sales.
- To complete the construction of advanced physical and chemical labs
- To closely monitor and enhance production yield
- To introduce performance measures on management in association with workers' compensation and the company's profitability.





Q&A Session





Appendix



Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
<i>RMB'000</i>	2015	2014
Revenue	1,857,539	2,668,215
Cost of sales	(1,631,882)	(2,190,264)
Gross profit	225,657	477,951
Other income	11,972	27,411
Distribution expenses	(37,478)	(31,670)
Administrative expenses	(58,424)	(57,219)
Other expenses	(8,685)	(42,462)
Profit from operations	133,042	374,011
Finance income	4,103	4,128
Finance expenses	(72,294)	(71,493)
Net finance costs	(68,191)	(67,365)
Share of profit (losses) of associates	2,153	(1,739)
Share of profits of joint ventures	6,452	9,290
Profit before income tax	73,456	314,197
Income tax expense	(13,401)	(49,654)
Profit for the period	60,055	264,543



Consolidated Statement of Comprehensive Income (cont.)

	Six months ended 30 June	
<i>RMB'000</i>	2015	2014
Attributable to:		
Equity shareholders of the Company	60,547	264,742
Non-controlling interests	(492)	(199)
Profit for the period	60,055	264,543
Earnings per share (<i>RMB</i>)		
Basic	0.027	0.136
Diluted	0.027	0.136



Consolidated Statement of Financial Position

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



Consolidated Statement of Financial Position(Continued)

	At 30 June	At 31 December
<i>RMB'000</i>	2015	2014
Total assets less current liabilities	4,231,826	4,619,622
Non-current liabilities		
Interest-bearing borrowings	276,297	633,149
Deferred income	15,963	16,543
Deferred tax liabilities	42,962	40,109
	335,222	689,801
Net assets	3,896,604	3,929,821
Capital and reserves		
Share capital	40,167	40,167
Reserves	3,855,033	3,887,758
Total equity attributable to equity shareholders of the Company	3,895,200	3,927,925
Non-controlling interests	1,404	1,896
Total equity	3,896,604	3,929,821

