



天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826



2016 Interim Results Presentation
2016.8.26

*For identification purpose only



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Agenda

1. Financial Highlights

2. Business Review

3. Development Strategies

4. Q&A Session





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Financial Highlights



2016 Interim Results Overview

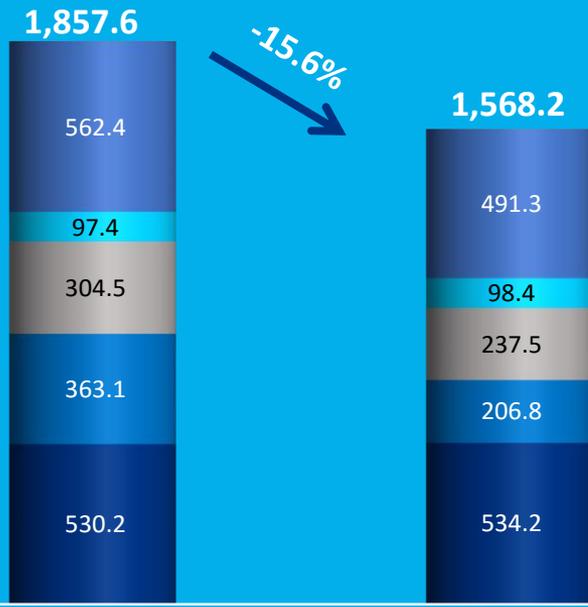
- Overall demands remained subdued in the first half of 2016, while a slow recovery from the trough in the second half of 2015 was witnessed, with the average selling prices of the Group's products bounced from the bottom during the period. Market share of the Group's die steel segment increased.
- Continued to maintain its competitiveness by focusing on high-end product development and cost saving strategy, including automation and reengineering of production process.

Six months ended 30 June 2016 (RMB million)	2016	2015	Change
Revenue	1,568.2	1,857.6	-15.6%
Revenue from key business segments (excl. trading of goods)	1,077.0	1,295.2	-16.8%
Gross profit	186.9	225.7	-17.2%
Gross profit margin	11.9%	12.1%	-0.2pp
Profit attributable to shareholders	25.7	60.5	-57.5%

Sales Analysis

Product Mix in 1H2016

RMB million

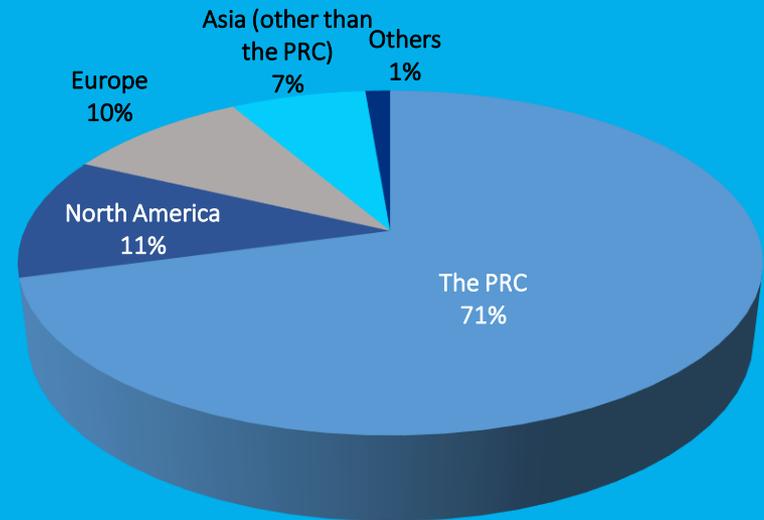


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20161H

- Die steel
- HSS
- HSS cutting tools
- Titanium alloy
- Trading of goods

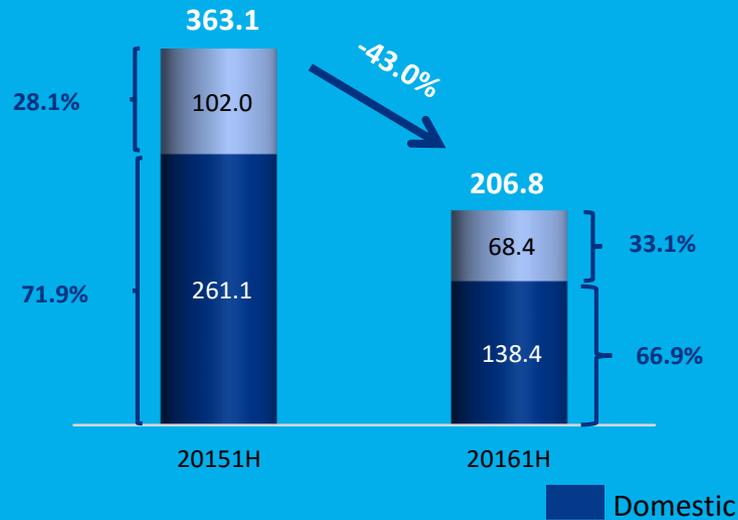
Geographical Breakdown in 1H2016



Sales Analysis— By Geography

HSS

RMB million



Die Steel

RMB million



- HSS has great hardness, heat resistance and durability, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation and electronics industries.
- Demand and average selling price of HSS remained subdued in both domestic and overseas markets.

- Die steel is a type of high alloy special steel, mainly used in die and mould casting as well as machining processing in industries including automotive, high-speed railway construction, aviation and plastic product manufacturing.
- Revenue generated from die steel increased by 0.7%, domestic revenue increased by 3.5% as a result of additional market share gained owing to the cleaning up of zombie corporation.

Sales Analysis – By Geography

HSS Cutting Tools

RMB million



Titanium Alloy

RMB million



- Two major types of HSS cutting tools include twist drill bits and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tool production brought a significant cost advantage to the Group over its peers.
- The price of HSS cutting tools remained relatively stable throughout the trough and recovery period.
- Demand decreased in both domestic and overseas markets and contribution ratio from both markets remained stable.

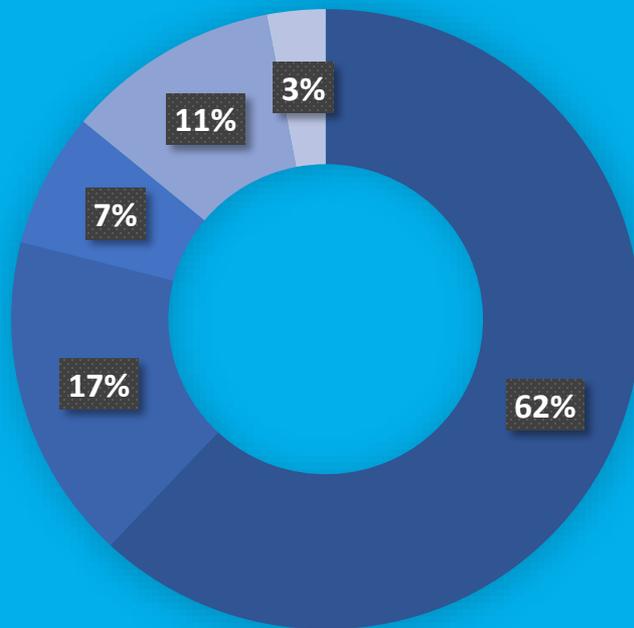
- Titanium alloy segment has been a rapidly development segment among the Group's products. The corrosion resistance nature of the titanium alloy promoted the extensive applications of the product in various areas, including aerospace, chemical pipeline equipment, nuclear and ocean industry.
- The Group recorded a 6.3% increase in sales volume of titanium alloys. However, the increase in sales volume was partially offset by the decrease in average selling price.

Sales Analysis – Price and GP Margin

	ASP and Gross Profit Margin							
	Sales Volume			Average Selling Price (RMB)			Gross Profit Margin	
	2016 1H	2015 1H	Change	2016 1H	2015 1H	Change	2016 1H	2015 1H
Die Steel	53,673 tons	45,996 tons	+16.7%	9,953	11,528	-13.7%	18.2%	19.0%
HSS	8,574 tons	11,989 tons	-28.5%	24,124	30,287	-20.3%	17.0%	18.0%
HSS Cutting Tools	116,868 pc/set	153,506 pc/set	-23.9%	2.03	1.98	+2.5%	16.8%	15.5%
Titanium Alloy	1,912 tons	1,798 tons	+6.3%	51,473	54,133	-4.9%	13.7%	12.6%

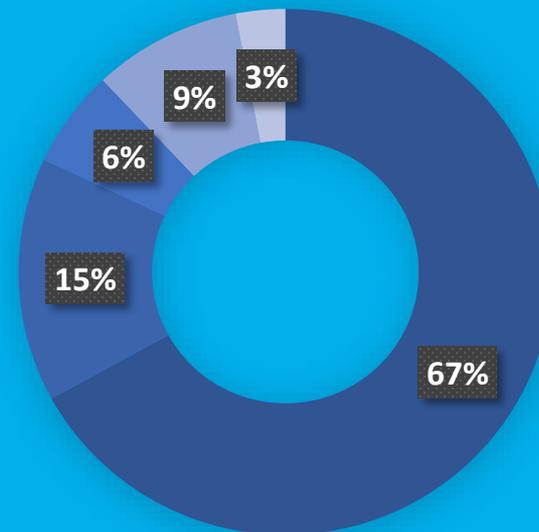
Cost Structure

1H 2016



- Raw Materials
- Utilities
- Labor
- Production
- Others

1H 2015



Key Financial Figures

(RMB '000)	As at 30 Jun 2016	As at 31 Dec 2015	Change
Net assets	3,938,112	3,876,287	1.6%
Net assets per share (RMB)	1.77	1.75	1.6%
Cash and cash equivalents (including time deposits & pledged deposits)	1,226,393	1,168,875	4.9%
Net debt ¹	1,920,821	1,897,999	1.2%
Net gearing ²	48.8%	49.0%	-0.2pp
Inventory turnover days	249 days	231 days	+18 days
Trade receivable turnover days	187 days	195 days	-8 days
Trade payable turnover days	144 days	143 days	+1 day
(RMB '000) As at 30 Jun	2016	2015	Change
Other income	7,325	11,972	-38.8%
EBITDA	197,391	242,171	-18.5%
Effective tax rate	19.2%	18.2%	+1.0 pp

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

2) Net Gearing = net debt / net assets



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Business Review



Progressive Project Development

1. The Group's die steel and titanium sheet plant in Jurong commenced production, capable of producing cold-rolled sheet and will expand into the production of hot-rolled sheet.
2. Tiangong Technology building combining the functions of R&D and assessment facilities and office premise has commenced construction, expecting to be officially put to use in January 2017.
3. Mould steel ingot electro slag remelting has began production in batches, providing technology guarantee to quality enhancement and efficiency improvement in mould steel production.
4. Screw tap grinder with mechanical arm; screw thread grinder with mechanical arm; heat treatment automation and the intelligent upgrade of on-line flat steel straightening, flaw detection and overturn facilities is completed and put into production.
5. Adopting 3D printing in titanium wire products production, signifying the Group's entry into the international new materials market.



Continuous Product Innovation

1. Applied for **24** patents in 1H2016 and acquired **seven** invention patents as well as **nine** utility model patents, increasing the Group's total number of effective patents to **139**, further realizing the Group's capabilities in technology, R&D and innovation.
2. Optimized production techniques on tools and moulding steel products by adopting a company product quality standard that exceeds international and national standards, while also standardizing raw materials merchandizing, providing guarantee to the improvement of the Group's product quality.
3. Successfully researched and developed hard alloy high speed bevel cutter and countersink dagger drill, which have been sold to overseas customers. The bevel cutter is pending national patent approval, laying a strong foundation for the sale of hard alloy products going forward.



Active Integration into Capital Market

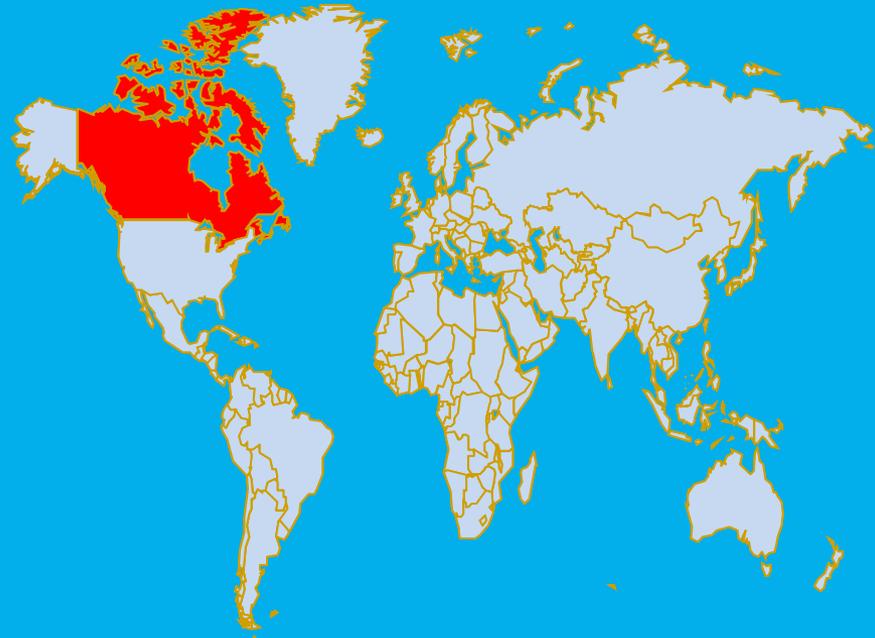
Enhance Influence in the Industry

1. Jiangsu Tiangong Technology Company Limited (“TG Tech”) was among the first batch of companies listed on the NEEQ Innovation List, being the only private company in the titanium industry to be included in the list. This provides an effective platform for the Company to attract potential investors, increase financing efficiency and guarantee economic benefits.
2. TG Tech was invited to the “China Titanium Annual Conference 2016” together with the most influential companies in the titanium industry including Baoti Group, Western Metal Materials and Asian Metal. Tiangong Technology also signed strategic cooperation agreement with China Ordins Group.
3. According to the report by Central Iron & Steel Research Institute, Tiangong came first among key private special steel companies in the PRC, setting an example of the transformation of special steel company leveraging the specialization and differentiation in its production process.
4. As a company that provides quality products, Tiangong was introduced in CCTV’s programme “Quality”, being the only private company in the special steel industry in the PRC appearing in the programme, to demonstrate its business acumen to millions of viewers.



Expansion of Sales Channels Further Strengthening International Market

1. Realized multi-platform sales in e-commerce channel, successfully entered China Tools Mall, with online sales revenue doubled.
2. Signed cooperation agreement with business partner in Canada in April 2016, for the proposed establishment of sales office to further expand the North America market.
3. Promoted the establishment of overseas sales offices in Mexico and Vietnam.





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Development Strategies



Optimize Production Process for Cost Control Enhance Core Competitiveness

1. Increase the production capacities of 850 flat steel and 910 roll steel, in replacement of 2,000 tons fast forging production with an aim to enhance overall production capacity and lower production cost.
2. Refine steel production management, implement tight cost control, standardize raw and auxiliary materials assessment and establish a comprehensive system on the purchase, assessment and use of both raw and auxiliary materials, to ensure steel production cost is lowered by RMB500/ ton, HSS production cost is lowered by RMB500/ ton, and die steel production cost lowered by RMB300/ ton.
3. Facilitate process optimization to achieve successful production of finished products in each cycle, ensuring the finished product rate of die steel and round flat steel reaching 80%, while accelerating the mass production of titanium sheets in each cycle.



Accelerate Product R&D for Market Expansion

1. Overcame difficulties in the production of M3 screw taps, M42 bi-metal blade steel, 5H12 roll steel, roll steel polish rounds, premium moulds, round steel and HP-M42 air drill. Development of aged material processing, cut-free precision mould processing and light board.
2. Overcome problems of fracturing and low durability in screw taps, hardness in the cooling of steel wire, loosening of die steel, decarbonization of HSS and oval steel width controlled at +/- 20 wires.



Complete Intelligent Upgrade of Production Facilities as Plan

1. Complete the intelligent upgrade of nine screw tap grinders by the end of August, and complete intelligent upgrade of all grinders by end of October, in order to reduce labour intensity.
2. Complete intelligent upgrade of two screw thread grinders with mechanical arms by the end of August and complete upgrade of all grinders by the end of 2016.
3. Facilitate automation upgrade of heat treatment and target to put into official use by end of August.
4. Finish on-line flat steel self-assessment project by the end of September, achieve on-line flat steel straightening, flaw detection, overturn and automatic coding functions.
5. Complete Military License Certification and Production Permit of Arms and Equipment by end of December, to get ready for entering the military industry.



Strengthen Staff Stability and Promotion for Business Development

Launching personnel development programme for the nurturing of second-tier staff, and cooperate with Nanjing Sushang College to provide training for first-tier staff to become elite members of management with a high sense of responsibility for the development of Tiangong.



Combining Industry Expertise to Build a Better Company

Combine the business philosophy of “light asset development with focus on talent, minimal investment for highest yield, streamlining business scale with emphasis on innovation”, market condition and cooperate with business partners with high integrity and clear development goals, to compliment business strengths of all parties and work for market expansion for higher market share.

Accelerate cooperation with Ningbo Ningshing Holdings and Shenzhen Neworigin Special Steel to expand southern and eastern China markets.



Endeavour in Eco-friendly Development with Strict Safety Management

1. All production process must strictly follow safety rules and eco-friendly measures for green development.
2. Establish a system of accountability on environmental protection equipment, ensure that related equipment is well-maintained on regular basis for smooth operation.





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Q&A Session





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Appendix

Consolidated Income Statement

RMB '000

Six months ended 30 June

	2016	2015
Revenue	1,568,234	1,857,539
Cost of sales	(1,381,307)	(1,631,882)
Gross profit	186,927	225,657
Other income	7,325	11,972
Distribution expenses	(28,829)	(37,478)
Administrative expenses	(67,363)	(58,424)
Other expenses	(16,424)	(8,685)
Profit from operations	81,636	133,042
Finance income	5,533	4,103
Finance expenses	(59,807)	(72,294)
Net finance costs	(54,274)	(68,191)
Share of profit (losses) of associates	3,513	2,153
Share of profit of joint ventures	2,361	6,452
Profit before income tax	33,236	73,456
Income tax expense	(6,372)	(13,401)
Profit for the period	26,864	60,055

Consolidated Income Statement (con't.)

RMB '000

Six months ended 30 June

	2016	2015
Profit for the period	26,864	60,055
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of		
- Financial statements of subsidiaries, associates and joint ventures outside of the People's Republic of China ("the PRC")	72	(473)
Total comprehensive income for the period	26,936	59,582
Attributable to:		
Equity shareholders of the Company	25,785	60,074
Non-controlling interests	1,151	(492)
Profit for the period	26,936	59,582
Earnings per share (RMB)		
Basic	0.012	0.027
Diluted	0.012	0.027

Consolidated Balance Sheet

RMB '000	As at 30 Jun	As at 31 Dec
	2016	2015
Non-current assets		
Property, plant and equipment	3,247,098	3,243,542
Lease prepayments	73,498	74,372
Goodwill	21,959	21,959
Interest in associates	41,961	38,503
Interest in joint ventures	27,425	24,509
Other financial assets	10,000	10,000
Deferred tax assets	23,315	20,089
	3,445,256	3,432,974
Current assets		
Inventories	1,912,391	1,886,643
Trade and other receivables	1,782,913	1,895,480
Pledged deposits	488,230	445,389
Time deposits	400,000	400,000
Cash and cash equivalents	338,163	323,486
	4,921,697	4,950,998
Current liabilities		
Interest-bearing borrowings	3,018,539	2,580,896
Trade and other payables	1,195,398	1,347,335
Deferred income	5,097	1,162
	4,219,034	3,929,393
Net current assets	702,663	1,021,605
Total assets less current liabilities	4,147,919	4,454,579

Consolidated Balance Sheet (con't.)

RMB '000	As at 30 Jun	As at 31 Dec
	2016	2015
Non-current liabilities		
Interest-bearing borrowings	128,675	485,978
Deferred income	41,965	48,168
Deferred tax liabilities	39,167	44,146
	209,807	578,292
Net assets	3,938,112	3,876,287
Capital and reserves		
Share capital	40,167	40,167
Reserves	3,847,474	3,836,120
Total equity attributable to equity shareholders of the Company	3,887,641	3,876,287
Non-controlling interests	50,471	-
Total equity	3,938,112	3,876,287