



Tiangong International Co., Ltd.

天工国际有限公司

(Stock Code: 826.HK)

2017 Interim Results Presentation

August 16, 2017



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Agenda



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SECTION 1

Results Highlights



1H 2017 Financial Highlights



The Group successfully recovered from the trough of the industry and continue to maximize value for shareholders

Financial performance

- Revenue increased significantly by 19.7% to RMB1,877m compared with 1H 2016. Excluding trading of goods segment, revenue increased by 30.8% to 1,409m, compared with 1H 2016
- Gross profit reached RMB214m, the overall gross margin was 11.4% compared with 11.9% in 1H 2016
- Net profit attributed to equity shareholders of the Company increased 52.8% to RMB39.3m, compared with 1H 2016
- Earnings per share was RMB0.018, increased 50.0%, compared with 1H 2016

1H 2017 Segment Highlights



The Group successfully recovered from the trough of the industry and continue to maximize value for shareholders

Segment highlights

- Revenue generated from Die Steel (DS) increased 47.2% to RMB786m, among which domestic sales increased 91.8% to RMB429m
- Revenue generated from High Speed Steel (HSS) increased 48.0% to RMB306m, among which domestic revenue increased 50.7% and export revenue increased 42.4% compared with 1H 2016
- Revenue generated from Cutting Tools decreased 2.3% to RMB232m. For domestic market, the demand of cutting tools was supported by the recovery of various manufacturing industries. As such, under the Group's competitive pricing strategy, domestic revenue increased by 28.3%
- Revenue generated from Titanium Alloy decreased 14.5% to RMB84m compared with 1H 2016. The Group adjusted its strategy to strengthen the profitability of titanium alloy products. Titanium alloy was priced at a more profitable level in 1H 2017. Accordingly, compromised by a decrease in sales volume, higher average selling price was set for long term profitability



1H 2017 Major Achievements

The Group believed innovation and advancement is the best way to keep itself competitive and could eventually release the value of the businesses

R&D - New R&D projects were related to applying the Group's product into New Material industry specified by the "China's 13th Five-Year Plan" and "China Manufacturing 2025", targeting to catch up with the national development direction of China

- Tiangong Technology signed the cooperation agreement "Joint Laboratory of Marine Engineering New Materials" with Nanjing University of Technology to co-develop materials in the new field of Marine Engineering. Zhou Lian, academican of Chinese Academy of Engineering is appointed by Tiangong as the Chief technical adviser of the Joint Laboratory, and will provide technical support for Tiangong's innovations



1H 2017 Major Achievements



The Group achieved huge success in industry position and sales and marketing development

Industry position

- High-speed steel, die steel and titanium alloy are all included in the guidelines on emerging sectors of strategic importance of “China’s 13th Five-Year Plan”
- The Group’s “Intelligent power system application” was chosen as the first batch of “Internet plus intelligent power exemplary projects” by the National Energy Administration, further enhancing Tiangong’s influence
- The sheet project has been launched, and it will become the only full process sheet production line in the industry upon the project’s completion
- The carbide cutter production expansion project is going according to plans, and the production capacity of carbide products will be doubled

Sales and marketing development

- The Group launched its online flagship store on China South City’s hardware platform, thereby expanding the online influence of Tiangong brand
- The Group overcame production difficulties and manufactured products that coped with markets demand, further enriching the Group’s product line

1H 2017 Major Achievements



Tiangong fully standardized its internal operations and improved the overall management of the company

Internal operation

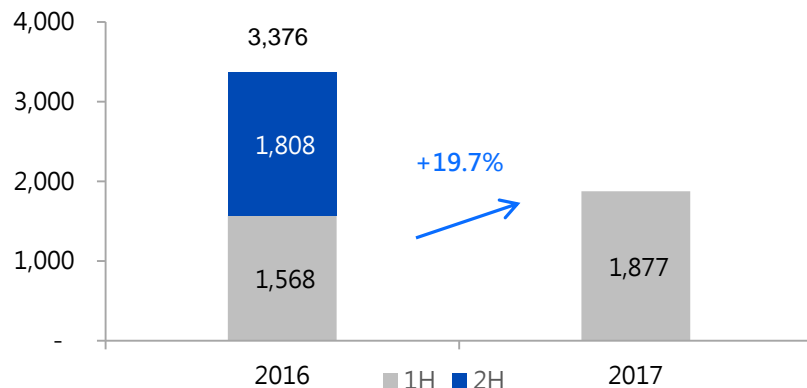
- Tiangong passed the third level of “standardization of production safety certification” by the State Administration of Work Safety, thereby enhancing the company’s production safety management
- Internal management system is further standardized by launching the new initiative “Big Project Review,” and a comprehensive audit was performed for all relevant projects to ensure the quality of construction
- The internal promotion for each position is fully implemented. The human resources department selected 21 recommended management candidates, who will become invaluable for the company’s future development
- Production process management was upgraded in order to improve product quality and yield



2017 Interim Results Highlights

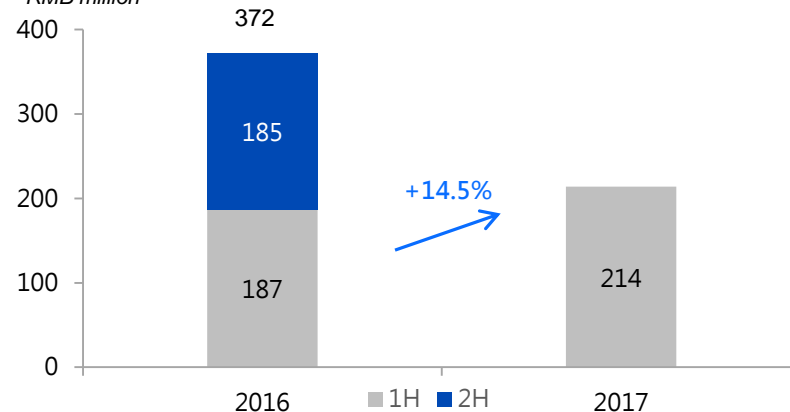
Sales increased in 1H17

RMB million



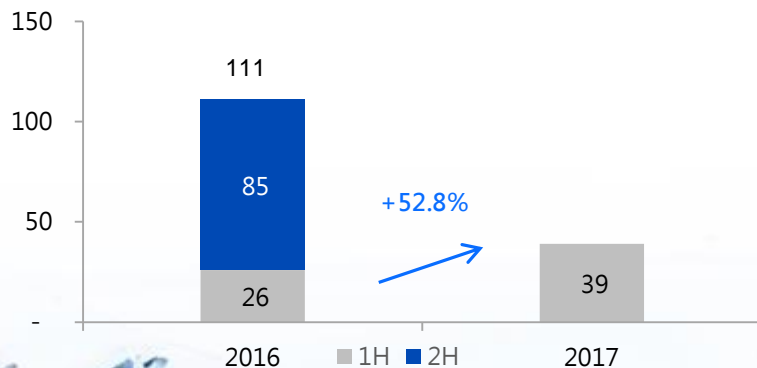
Gross profit increased in 1H17

RMB million



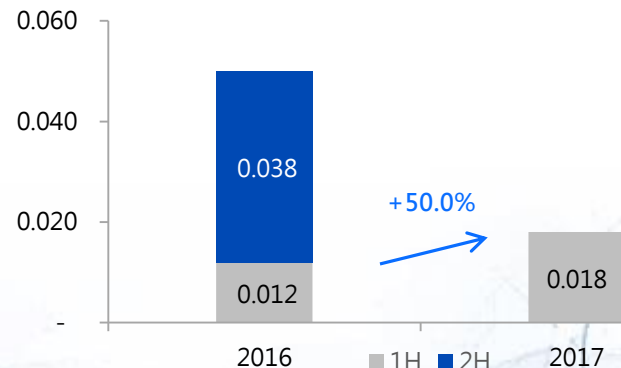
Net profit attributed to equity shareholders of the Company significantly increased in 1H17

RMB million



Significant increase in EPS in 1H17

RMB



1H 2017 Results Highlights



1H 2017 sales breakdown by segment



Note : Sales excluding trading of goods



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SECTION 2

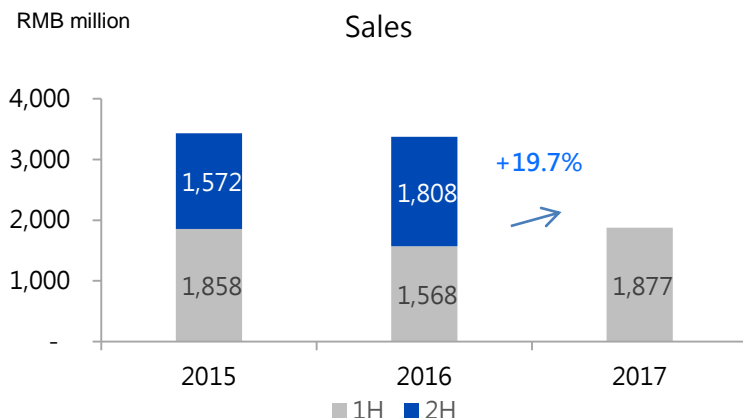
Financial Overview



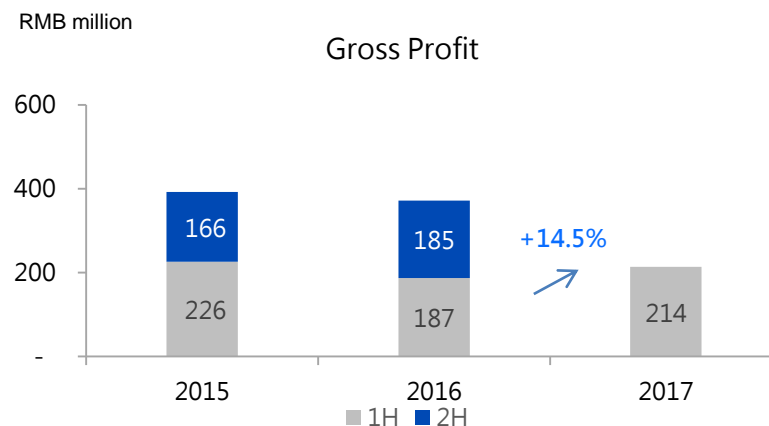


Financial Snapshot

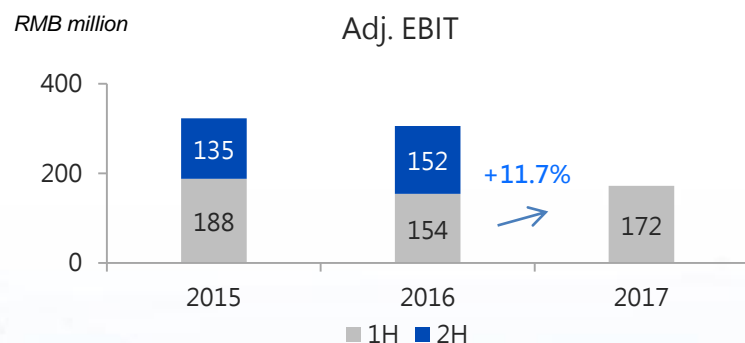
Sales increased in 1H 2017



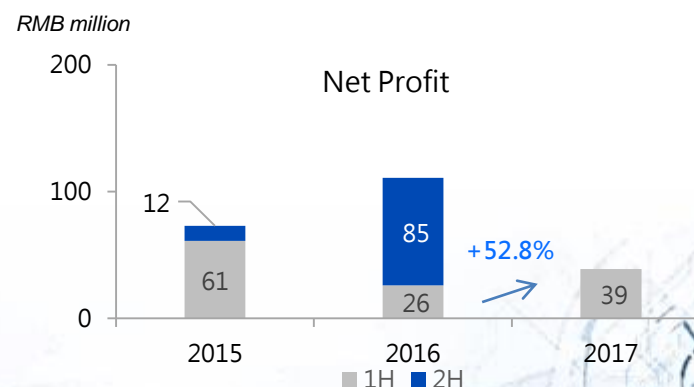
Gross profits recovered in 1H 2017



Adjusted EBIT* recovered in 1H 2017



Net profit attributed to equity shareholders of the Company significantly increased in 1H 2017

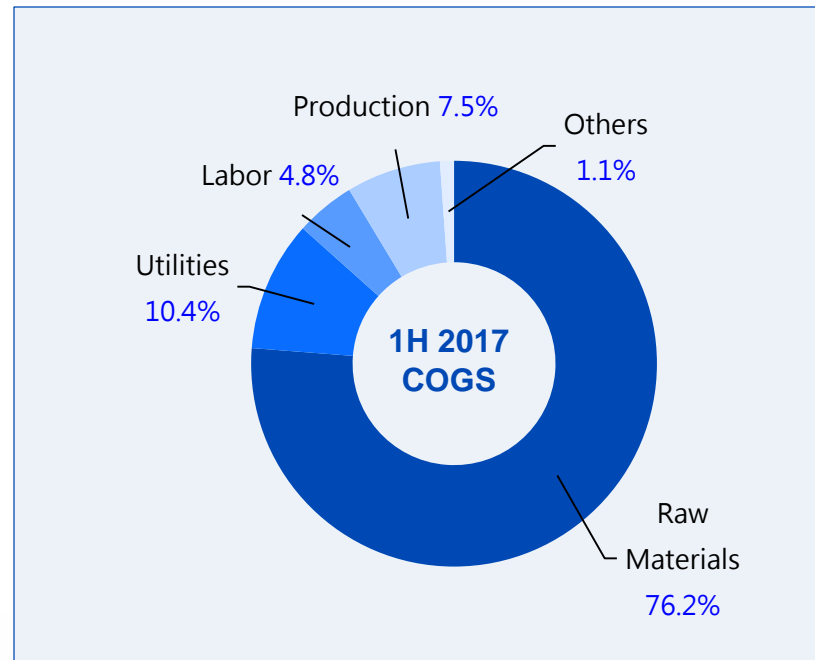


*Note: To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments

Cost Structure



Efficient cost structure benefits long-term growth





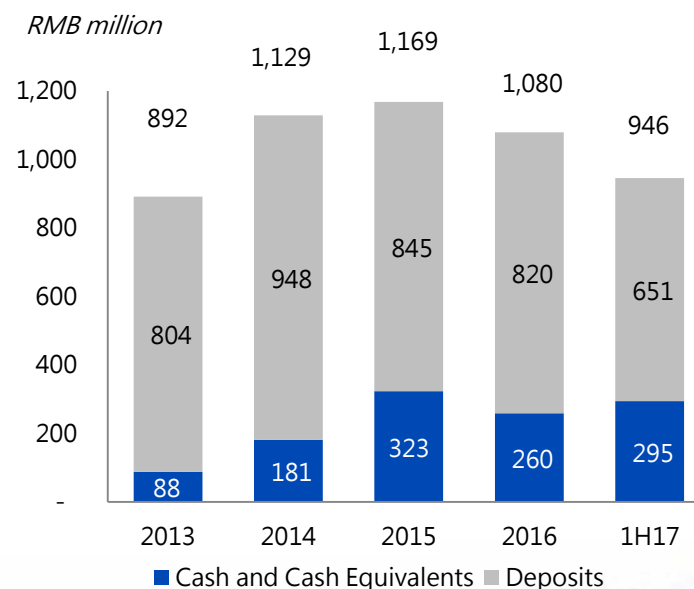
Balance Sheet Summary

Solid balance sheet & cash position to support existing business and growth opportunities

<i>RMB million</i>	2014	2015	2016	1H17
PPE	2,999	3,244	3,444	3,411
Total Cash	1,129	1,169	1,080	946
Debt	2,976	3,067	2,889	2,990
Net Asset	3,930	3,876	4,155	4,180

Note: Total cash includes cash & cash equivalents, time deposits and pledged deposits
 Note: Debt consists of ST and LT interest-bearing borrowings

Cash Position



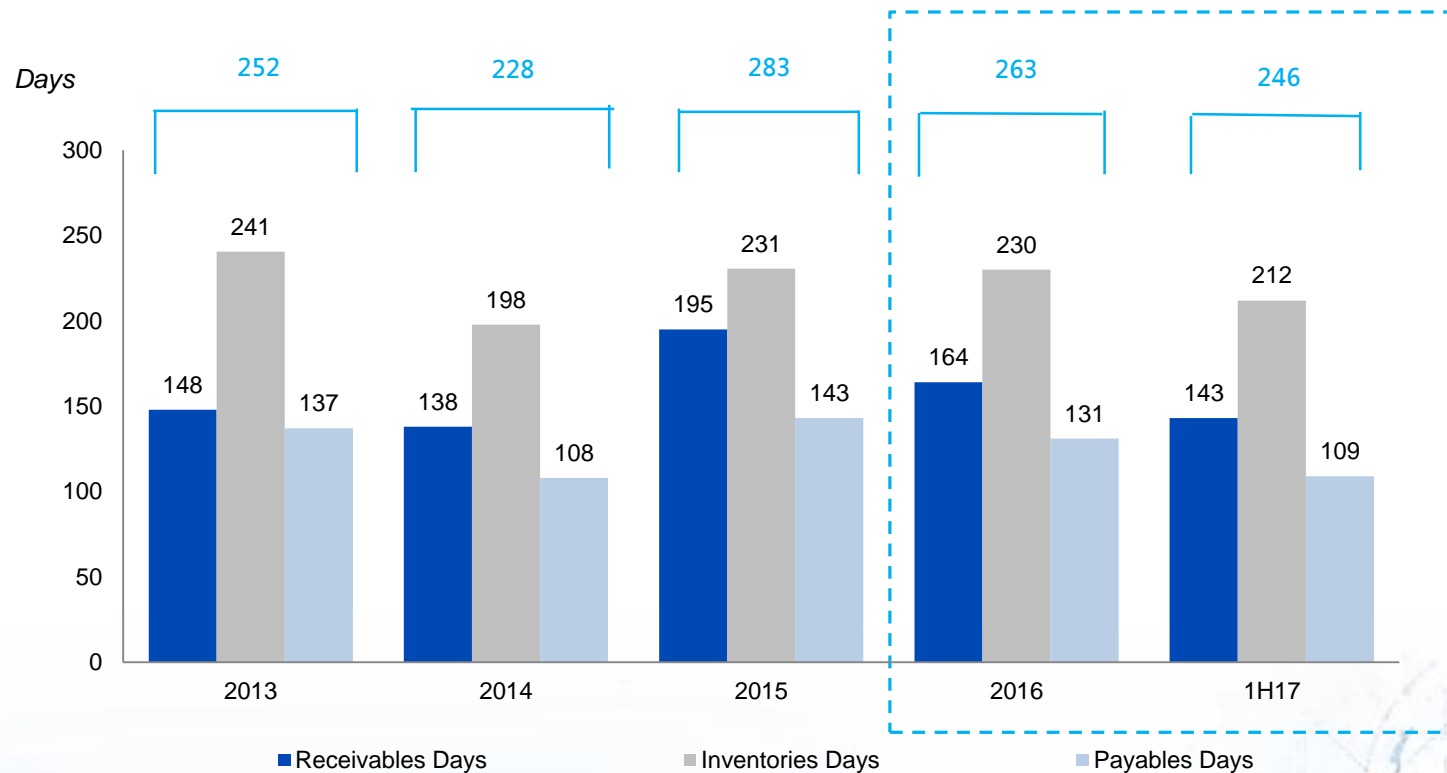
Note: Deposits includes both time and pledged deposits



Working Capital Overview

Cash conversion cycle decreased in 1H 2017

Cash Conversion Cycle

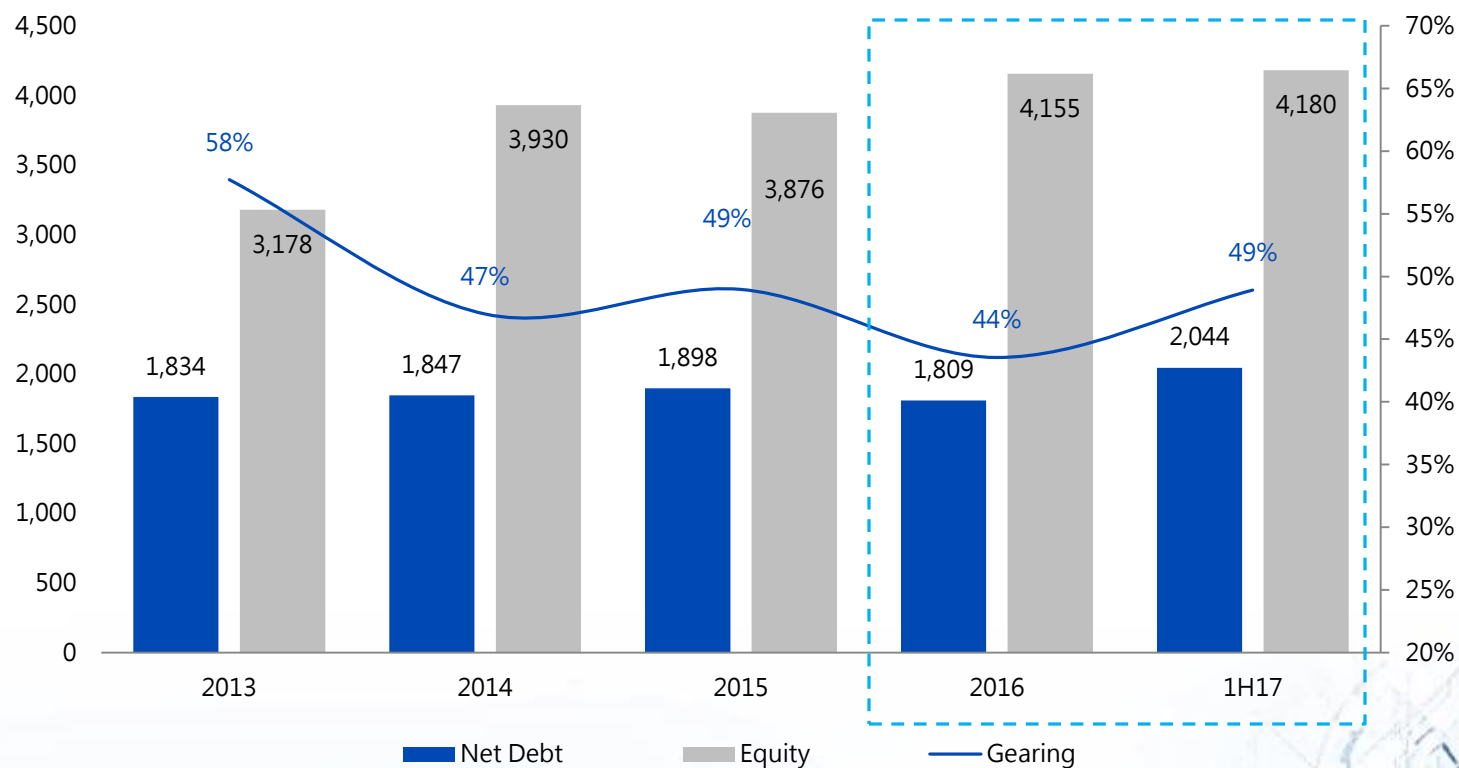




Net Gearing Ratio

Net gearing maintain at a healthy level

RMB million



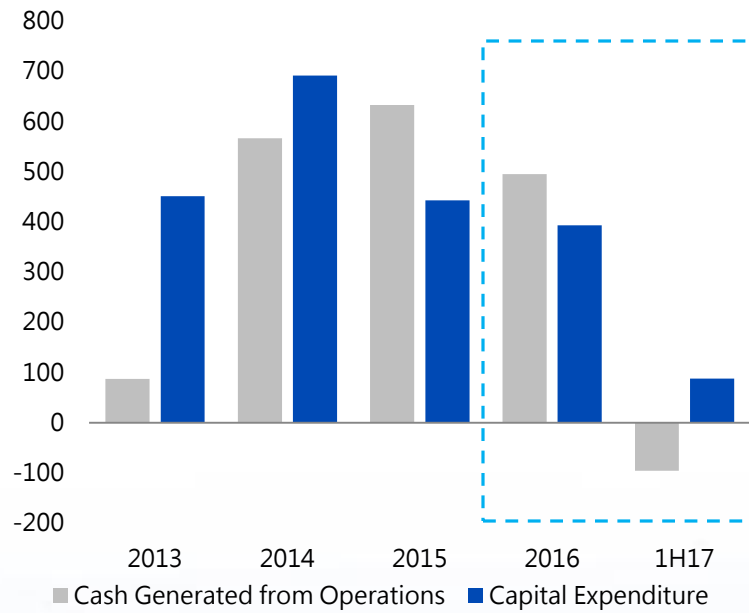


Capex Trend

Discipline capex management consistent with operating cash flow

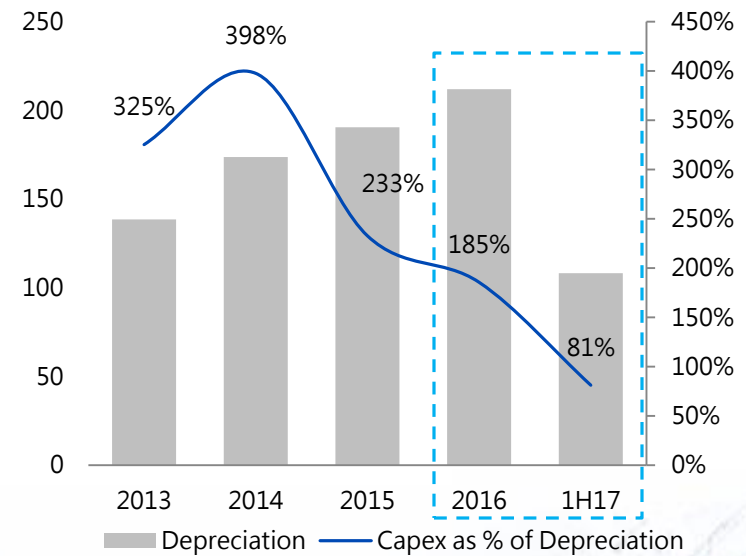
Capital Expenditure

RMB million



Depreciation

RMB million





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SECTION 3

Segment Reporting





1H 2017 Product Segment Highlights

Portfolio of leading product with attractive margins



Die Steel (DS)



High Speed Steel
(HSS)



Cutting Tools



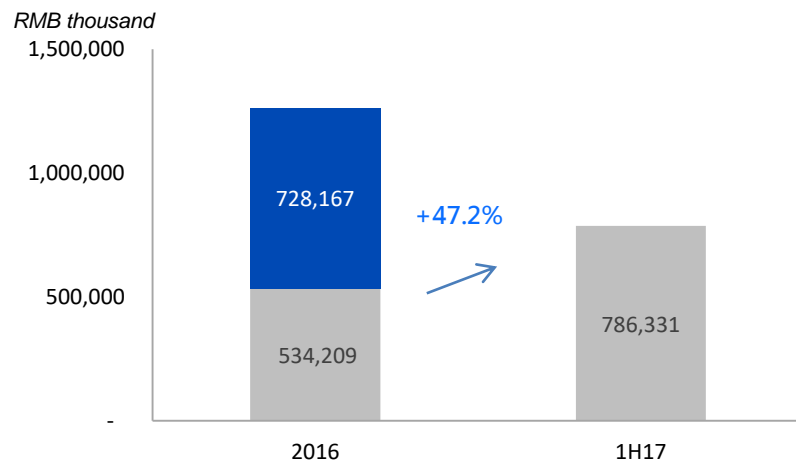
Titanium Alloy

Sales (RMB million)	786	306	232	84
GP Margin	15.0%	17.2%	14.2%	11.5%
Adjusted EBIT (RMB million)	90	46	26	9
Sales Volume	67.0K tons	11.3K tons	119.2M pcs	1.3K tons
ASP (RMB)	11.7K/ton	27.2K/ton	1.95/pcs	62.6K/ton

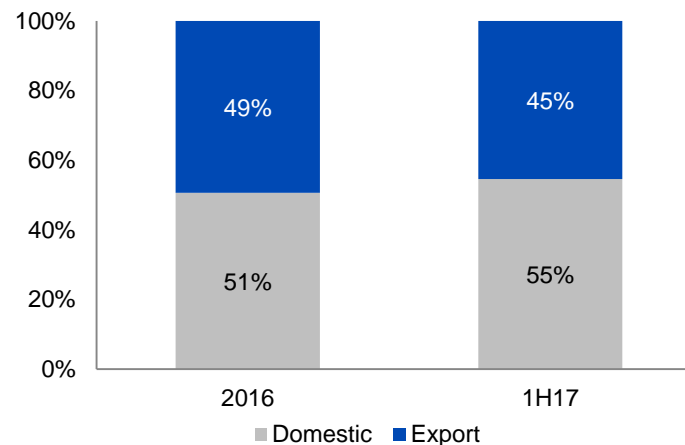
Die Steel



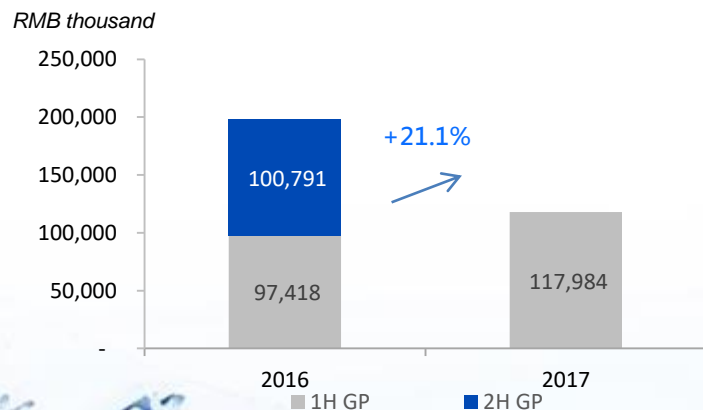
Sales



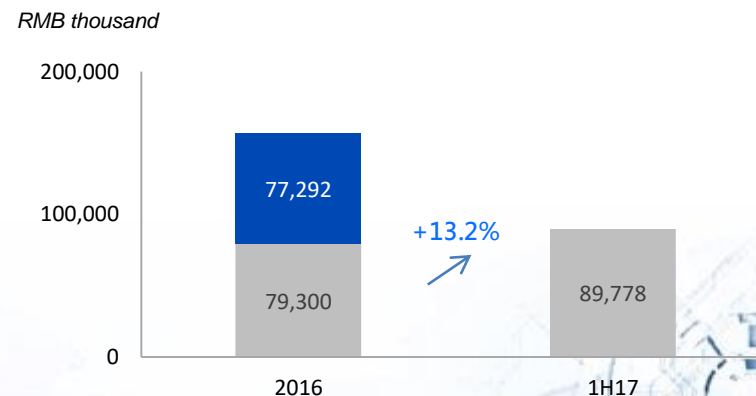
Domestic vs. export



Gross profit



Adjusted EBIT



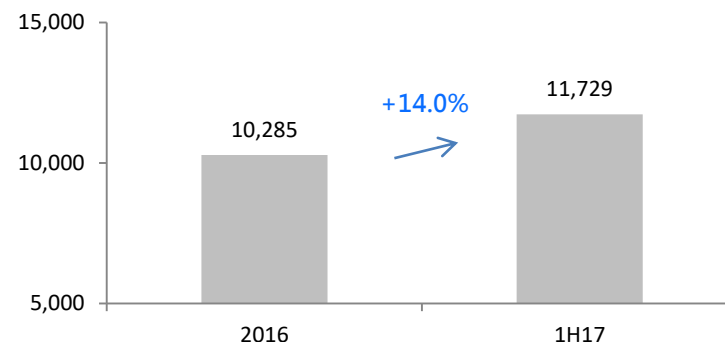
Die Steel (con't)



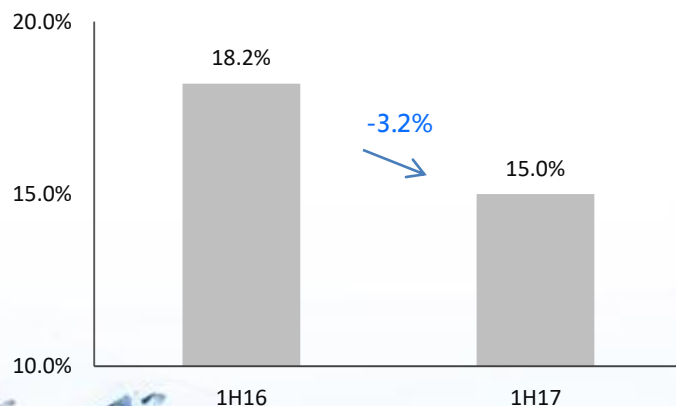
- **1H17 vs. 1H16** : Revenue up +47.2% to RMB786m, driven by solid volume growth (+24.9%) and ASP growth (+17.8%)
- **1H17 vs. 2016**: DS showed upward trend in ASP, up 14.0% compared with 2016
- **Gross margin**: Margin decreased from 18.2% to 15.0%. While the ASP was stimulated by the upward pricing trend in rare metals, there was a time lag. The GPM will be released when the procurement price of raw material stabilized

ASP

RMB thousand

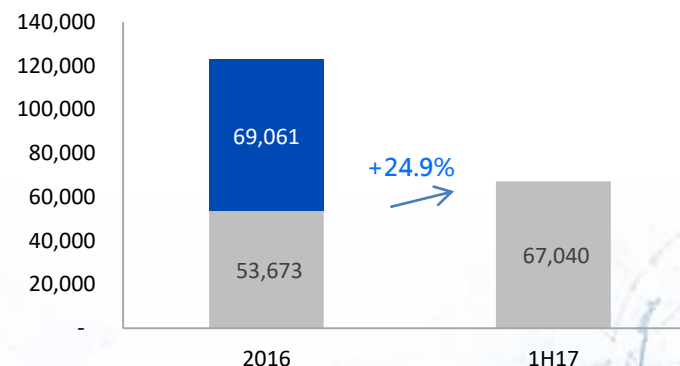


Gross Margin

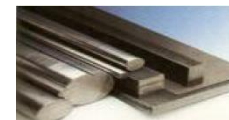


Sales volume

Ton

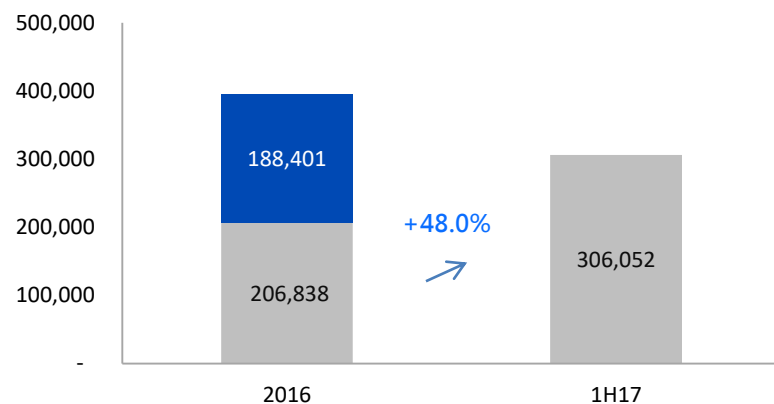


High Speed Steel

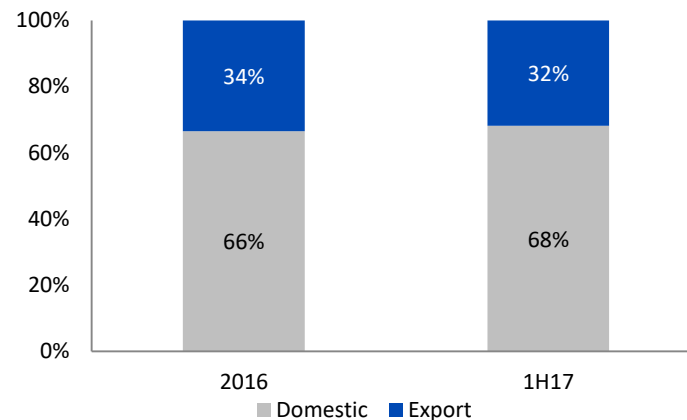


Sales

RMB thousand

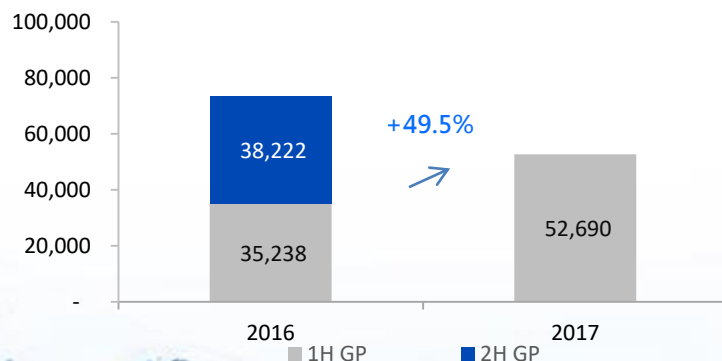


Domestic vs. export



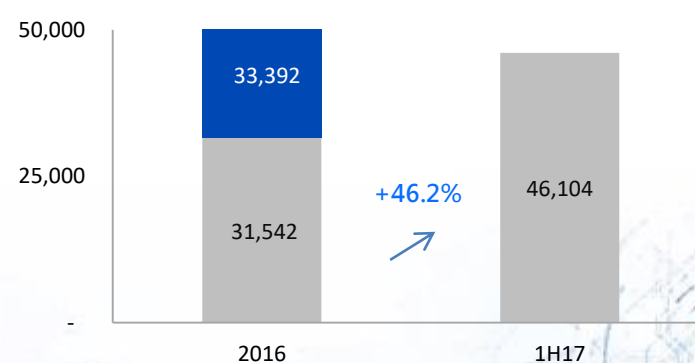
Gross profit

RMB thousand

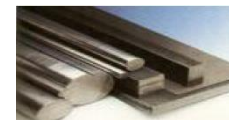


Adjusted EBIT

RMB thousand



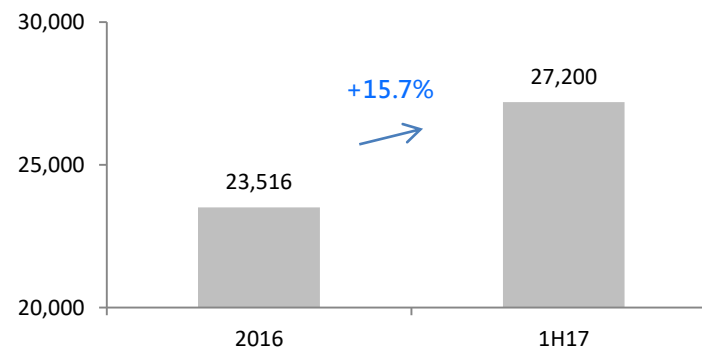
High Speed Steel (con't)



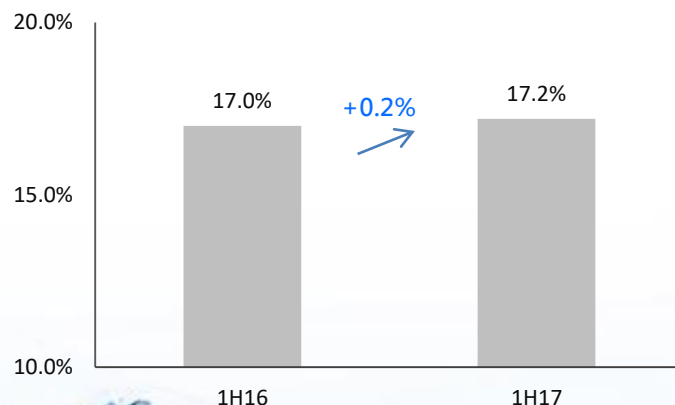
- **1H17 vs. 1H16** : Revenue up +48.0% to RMB306m as volume (+31.2%) and ASP (+12.8%) both increased by the recovery of domestic market
- **1H17 vs. 2016**: HSS showed upward trend in ASP, up 15.7% compared with 2016
- **Gross margin**: Margin increased from 17.0%(1H 2016) to 17.2%(1H 2017)

ASP

RMB thousand

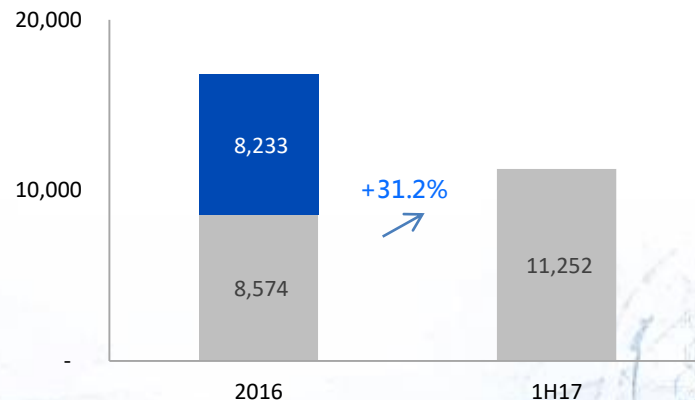


Gross Margin



Sales volume

Ton

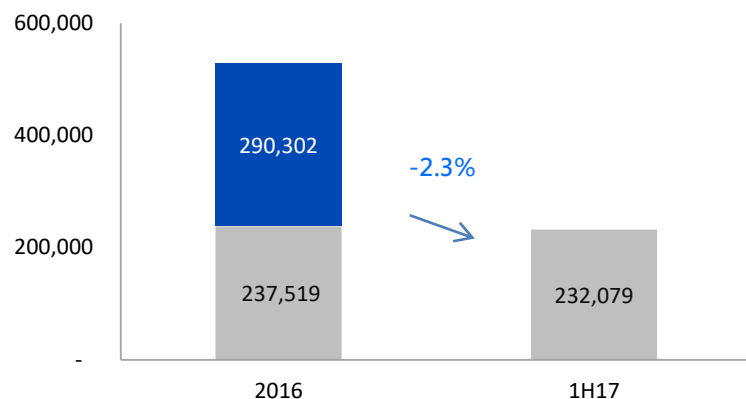


Cutting Tools

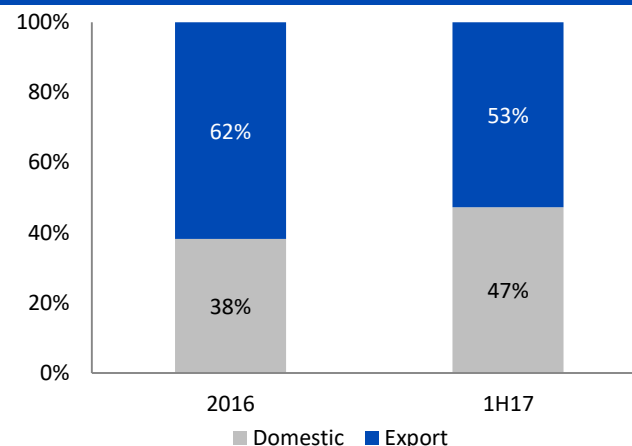


Sales

RMB thousand

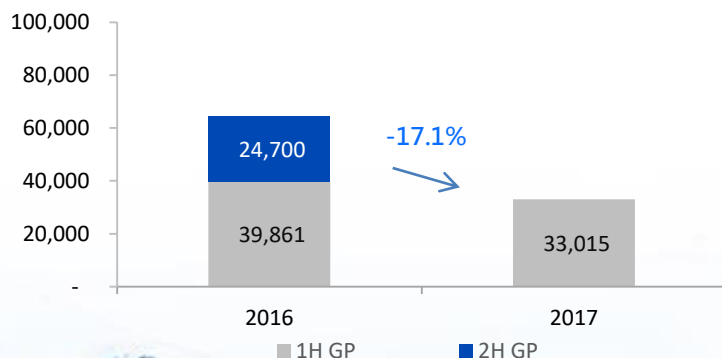


Domestic vs. export



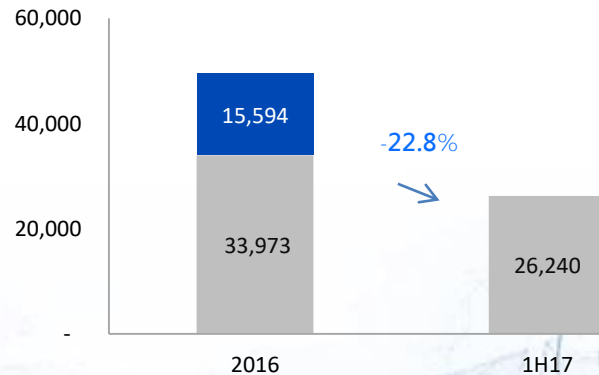
Gross profit

RMB thousand



Adjusted EBIT

RMB thousand

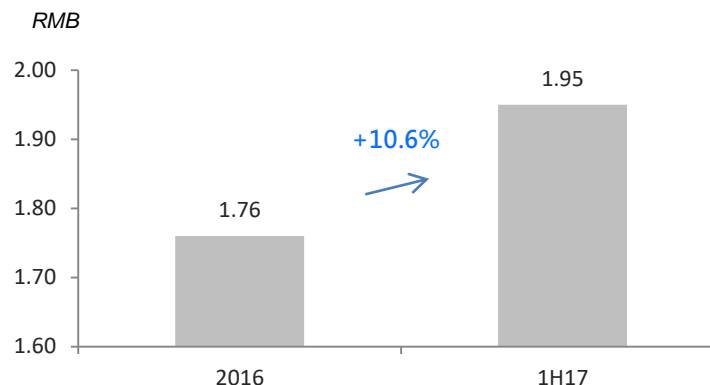


Cutting Tools (con't)

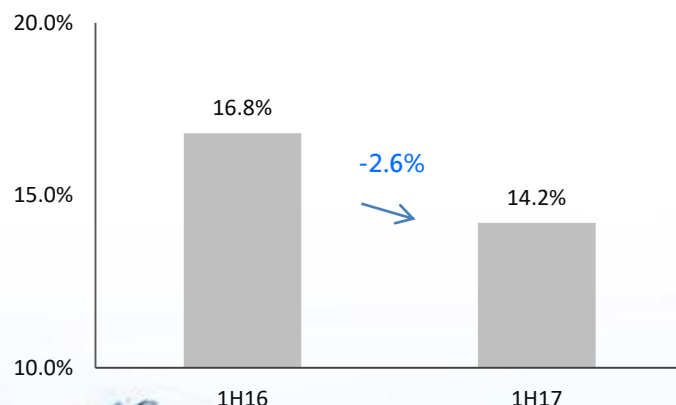


- **1H17 vs. 1H16** : Revenue down 2.3% to RMB232m despite a growth in volume (+2.0%), which is offset by ASP decline (-4.2%). Domestic sales increased 28.3%, driven by competitive pricing strategy
- **1H17 vs. 2016**: Cutting Tools showed upward trend in ASP, up 10.6% compared with 2016
- **Gross margin**: Gross margin decreased from 16.8% to 14.2%, due to the competitive pricing strategy applied by the Group to secured the market share in domestic and overseas markets

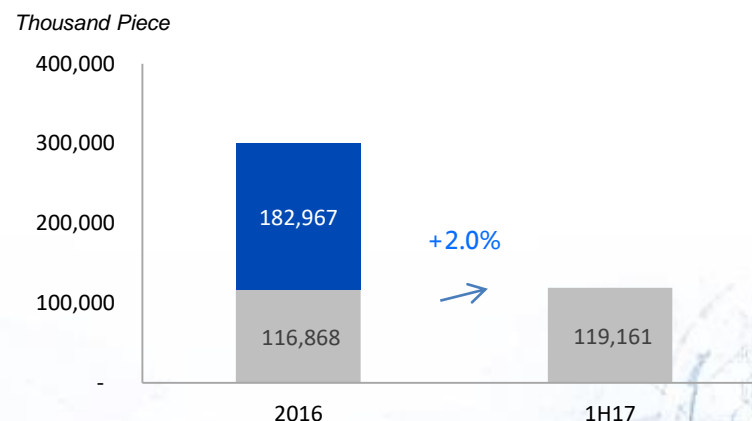
ASP



Gross Margin



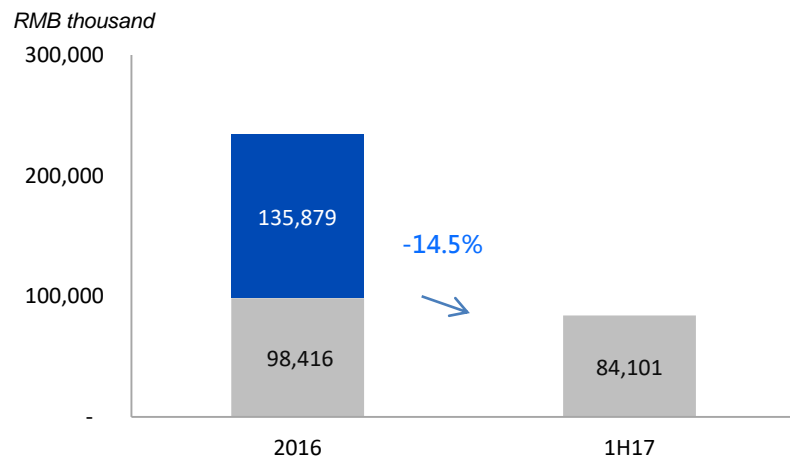
Sales volume



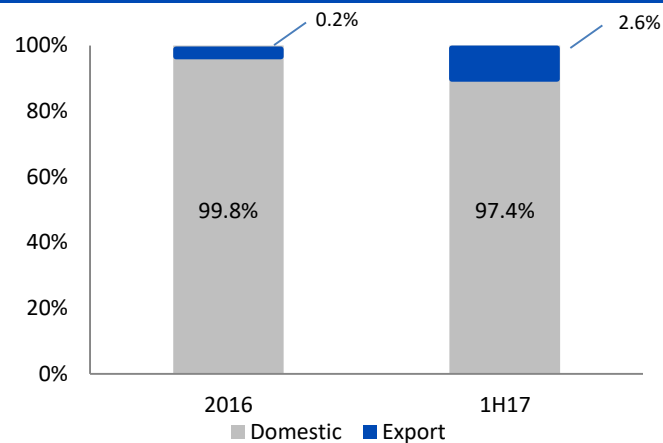
Titanium Alloy



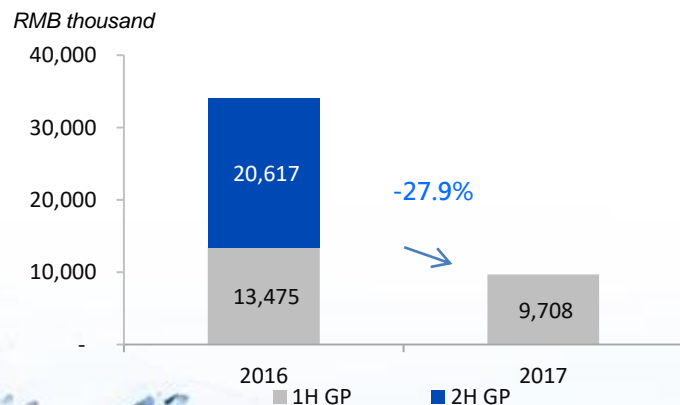
Sales



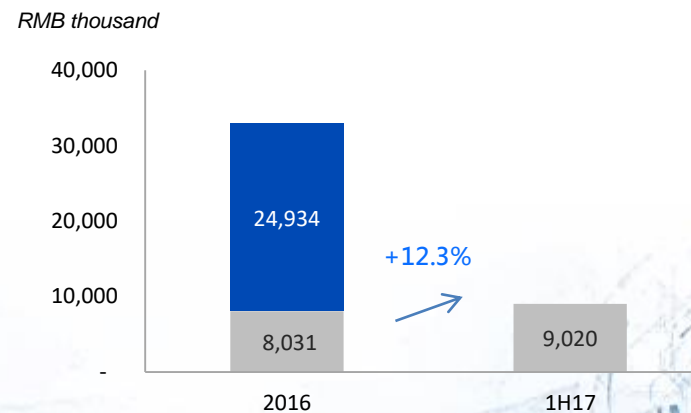
Domestic vs. export



Gross profit



Adjusted EBIT



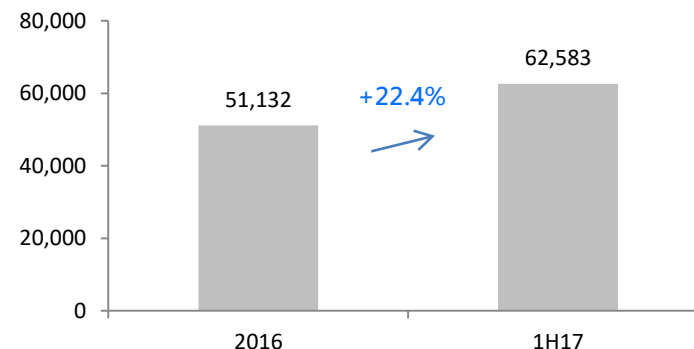
Titanium Alloy (con't)



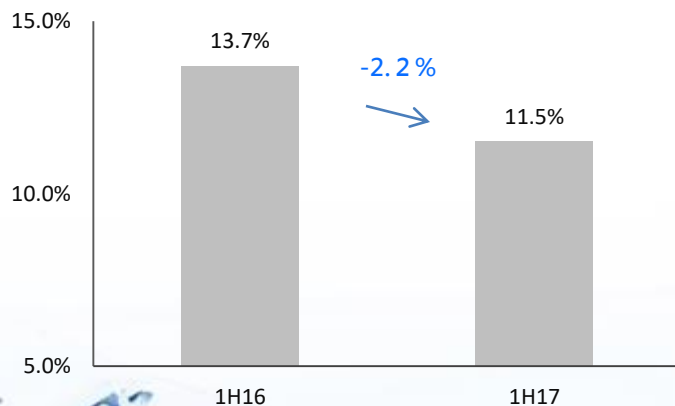
- **1H17 vs. 1H16** : Sales down 14.5% to RMB84m despite strong ASP growth (+21.6%), which was offset by decline in volume (-29.7%)
- **1H17 vs. 2016**: Titanium Alloy showed upward trend in ASP, up 22.4% compared with 2016
- **Gross margin**: Margin decreased from 13.7% to 11.5%. Though the Group changed to a profitable pricing strategy, the price of raw material spongy titanium was also in an upward trend. The gross margin of titanium alloy was thereby squeezed

ASP

RMB thousand

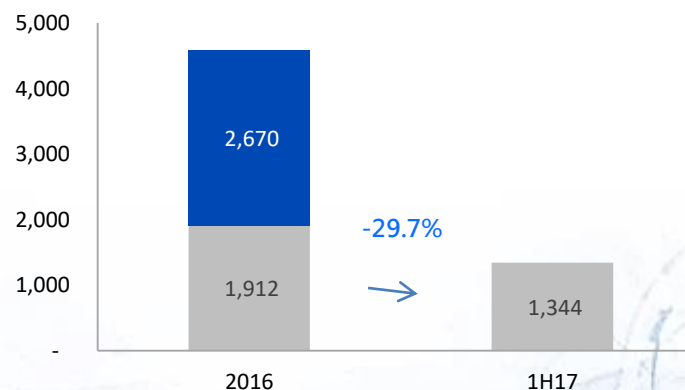


Gross Margin



Sales volume

Ton



Q&A



APPENDIX





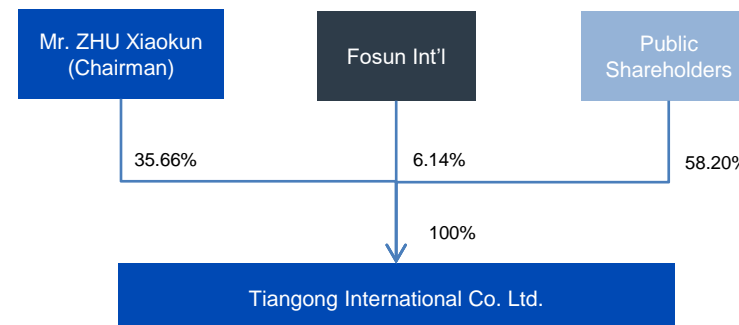
Corporate Snapshot

Company profile

Stock Code	826.HK
Listing Date	July 26, 2007
Share Price (HK\$)	\$0.85
Market Cap (HK\$ M)	1,887
Market Cap (US\$ M)	241

Note: Share price and market cap as of Aug 8, 2017

Ownership Structure



Note: Ownership as of Jun 22, 2017

Share price performance



Board of Director

Mr. ZHU Xiaokun	Chairman
Mr. WU Suojun	Executive Director & CEO
Mr. YAN Ronghua	Executive Director
Mr. JIANG Guangqing	Executive Director
Mr. GAO Xiang	Ind. Non-executive Directors
Mr. LEE Cheuk Yin	Ind. Non-executive Directors
Mr. WANG Xuesong	Ind. Non-executive Directors

Leadership



Industry veterans with average of +20 years of new alloy materials & tools experience



Mr. ZHU Xiaokun

Chairman of the Board

- Responsible for the overall business development strategy of the Group
- Over 30 years of experience in new alloy materials & tools industry
- Led the factory transformation in 1987 and subsequently expanded production into HSS, Die Steel and Titanium Alloy products
- Awarded as National Township Entrepreneur, Model of Work Force in Jiangsu Province, Model of National Steel Industry Work Force and Top 10 Annual Jiangsu Businessman
- Awarded the most charitable donation model in Jiangsu province
- Named as Most Honored Business Leader of the 12th Five Year Plan in Jiangsu from 2013 to 2015
- Awarded the National Labor Medal Award in 2015

Mr. WU Suojun
Executive Director &
CEO

- Deputy general manager of TG Tools and Tianfa Forging
- Joined the Group in 1994
- Over 25 years of experience in new alloy materials & tools industry
- Responsible for sales, production, operation management and purchase of HSS and Die Steel

Mr. WANG Gang
CFO

- CFO of the Group
- Member of the Chinese Institute of Certified Public Accountants
- Former director and financial controller of TG Tech
- Former chief accountant of Tiangong Group and former audit manager of KPMG China

Mr. ZHU Zefeng
CIO

- CIO of the Group
- Former operation manager at TopTech Tools
- Graduated with Advanced Diploma in Business Operation in Management from the Durham College
- Responsible for future investment strategy executions and opportunities recommendations

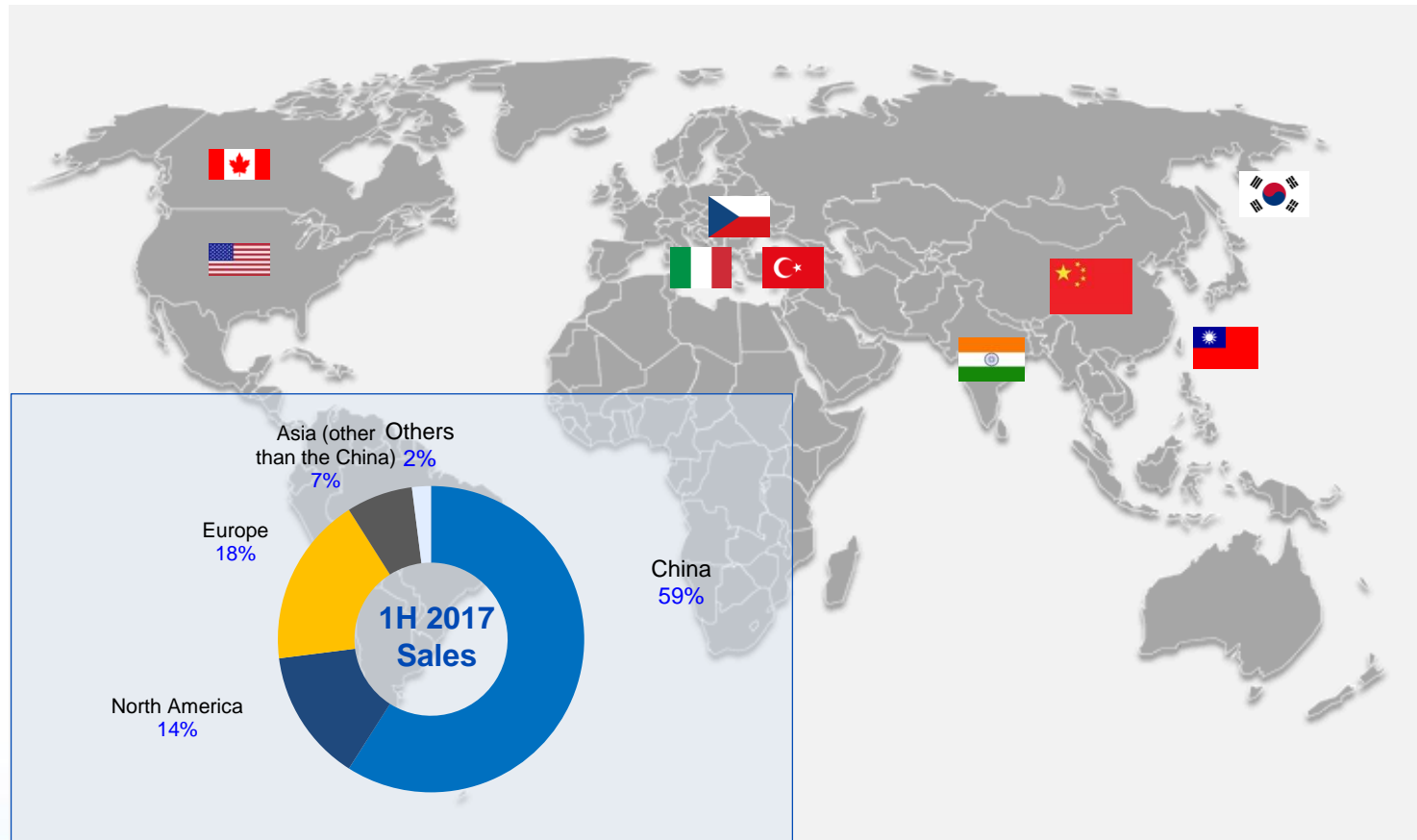
Mr. LIAO Jun
CTO

- CTO of the Group
- Former deputy head of technical center at Baosteel
- Over 30 years of experience in special steel industry
- Responsible for technology advance and development

Global Footprint























Global sales network strategically located in high growth regions



End-market Exposures



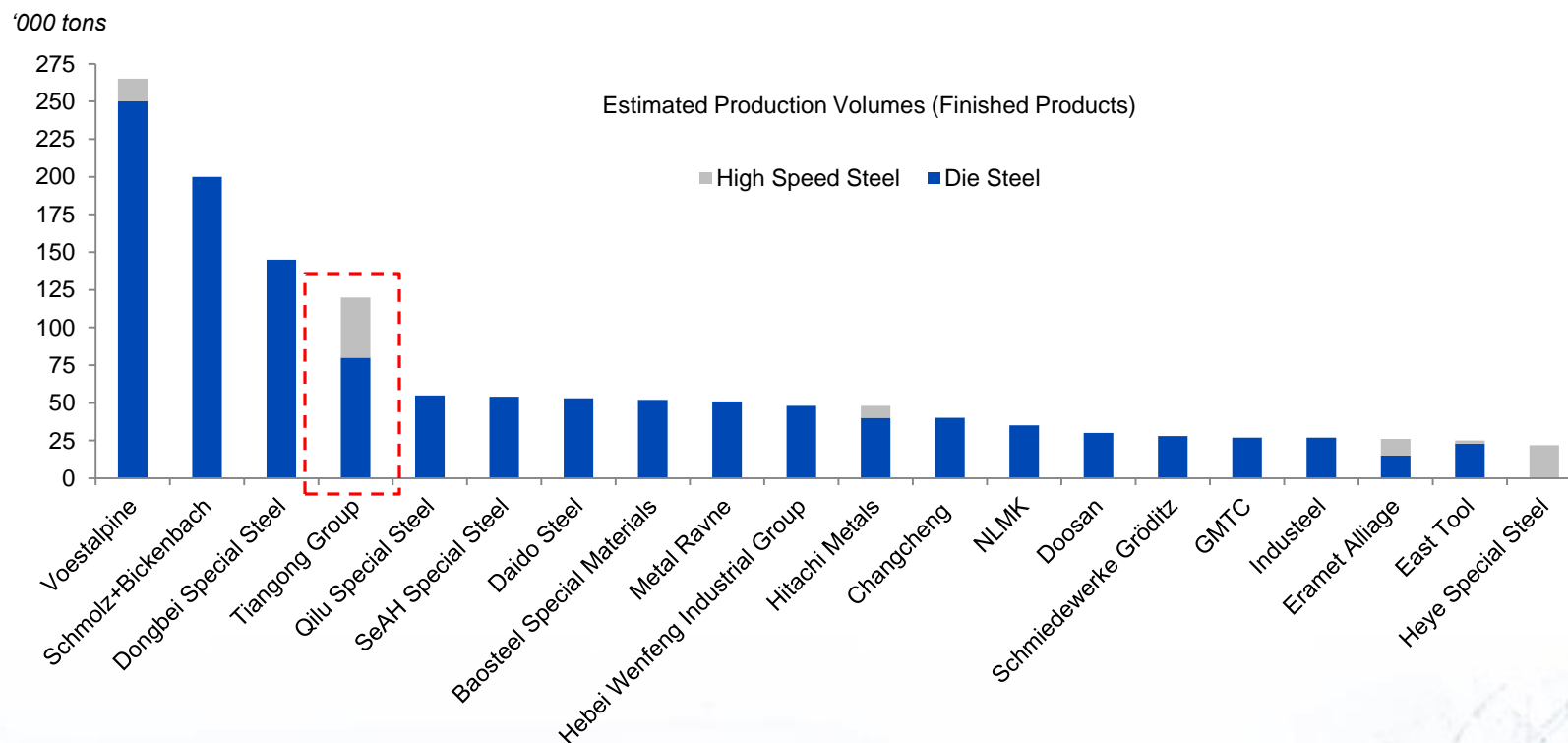
Diverse end-market exposures mitigates volatility

	Industry	End Customers
Die Steel	Automobile, Aerospace, Machinery Equipment	 Mercedes-Benz  
High Speed Steel	Automobile, Aerospace	  
Cutting Tools	Automobile, Aerospace, Machinery Equipment, Construction, Consumer Electronics	       
Titanium Alloy	Medical, Aerospace, Military	     



Top 20 Global Alloy Tool Steel Producers - 2015

Ranked No. 1 in China's HSS industry
and among the top 4 global Die Steel producer

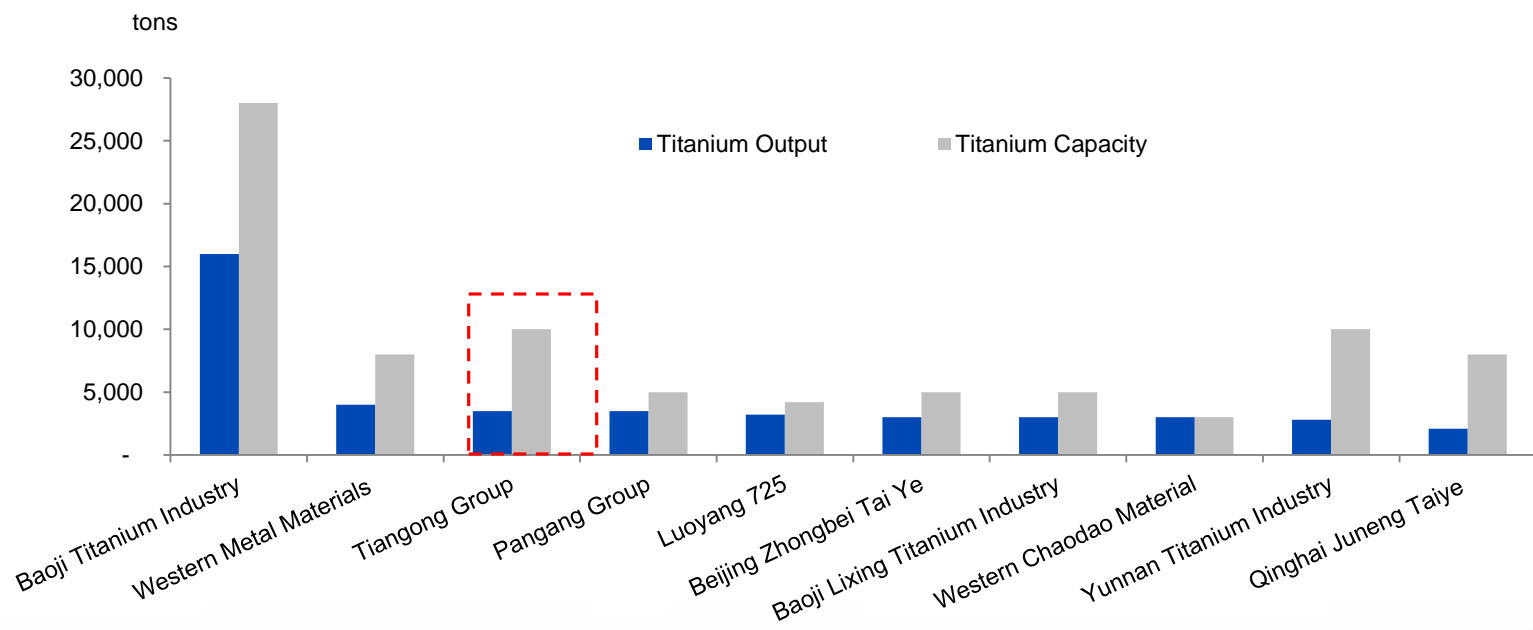


SOURCE: Steel & Metals Market Research 2016



Top 10 China Titanium Producers - 2015

Ranked No. 3 in China's Titanium industry
and No. 1 among private enterprises



SOURCE: Titanium, Zirconium and Hafnium 2016 Annual Meeting

Made in China 2025



"Made in China 2025" plan unveiled to boost manufacturing and benefit the special steel sector

- "Made in China 2025" is the first 10-year action plan designed to transform China from a manufacturing giant into a world manufacturing power
- The ten-year plan calls for promoting breakthroughs in 9 priority sectors including:
 - High-end Machine Tools and Robots
 - Aerospace Equipment
 - Ocean Engineering Equipment
 - Rail Transportation Equipment
 - High-end Medical Equipment
 - New Materials
 - New Energy Cars
 - Electrical Equipment
 - Farming Machines
 - New Information Technology
- Of which 9 sectors will benefit the use of special steel materials



Titanium Alloy Outlook in China



Development during “13th five-year plan” to promote growth in Titanium Alloy

- Outline of 13th five-year plan calls for a movement to develop high-end materials, with 3 new materials given clear mandate for future growth including Titanium Alloy

Tiangong's Strength and Advantages:

R&D capability through further strategic alliance with General Research Institute for Nonferrous Metals, setup of Jiangsu Marine Engineering New Material Research Center and NUAA & TG Tech Titanium Alloy Smart Manufacturing & Application Research Center

Leverage existing know-how and strength in HSS and Die Steel to further expand into Titanium Alloy production

Strong balance sheet and financial flexibility

Income Statement



<i>RMB'000</i>	1H 2016	1H 2017	% Change
Sales	1,568,234	1,877,005	+19.7%
Cost of sales	(1,381,307)	(1,662,936)	+20.4%
Gross profit	186,927	214,069	+14.5%
Other income	7,325	6,308	-13.9%
Distribution expenses	(28,829)	(42,255)	+46.6%
Administrative expenses	(67,363)	(63,429)	-5.8%
Other operating expenses	(16,424)	(9,805)	-40.3%
Profit from operations	81,636	104,888	+28.5%
Finance income	5,533	2,664	-51.9%
Finance expenses	(59,807)	(59,102)	-1.2%
Net finance costs	(54,274)	(56,438)	4.0%
Share of profits of associates	3,513	(1,628)	-146.3%
Share of profits of joint ventures	2,361	(720)	-130.5%
Profit before taxation	33,236	46,102	+38.7%
Income tax	(6,372)	(5,197)	-18.4%
Profit for the year	26,864	40,905	+52.3%
Attributable to:			
Equity shareholders of the Company	25,713	39,290	+52.8%
Non-controlling interests	1,151	1,615	+40.3%
Profit for the period	26,864	40,905	+52.3%
Basic and Diluted EPS (RMB)	0.012	0.018	+50.0%

Balance Sheet



<i>RMB'000</i>	31 Dec 2016	30 Jun 2017	% Change
PPE	3,444,164	3,411,347	-1.0%
Non-current assets	3,737,020	3,707,303	-0.8%
Inventories	1,901,775	1,999,433	+5.1%
Trade & other receivables	1,577,383	1,834,798	+16.3%
Pledged deposits	180,180	201,381	+11.8%
Time deposits	640,000	449,506	-29.8%
Cash & cash equivalents	259,546	294,745	+13.6%
Current assets	4,558,884	4,782,008	+4.9%
Interest-bearing borrowings – Current	2,678,912	2,573,364	-3.9%
Trade & other payables	1,145,129	1,215,459	+6.1%
Current liabilities	3,831,441	3,794,903	-1.0%
Interest-bearing borrowings – Non-current	210,000	416,888	+98.5%
Non-current liabilities	309,029	514,299	+66.4%
Total equity	4,155,434	4,180,109	+0.6%



For more information visit <http://www.tggj.cn/en/>
or contact:

Wing LEE

Financial Controller

(852) 3102-2386

tiangong@biznetvigator.com





Leveraging on our dominating position in the market and our advantage in costing and product range, we will strive to maintain growth and maximize returns to the shareholders of the Company.

