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Tiangong International Company Limited
天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Year ended 31 December 2014	Year ended 31 December 2013	Change
Revenue	**4,535.7**	3,396.7	33.5%
Gross profit	**908.8**	814.2	11.6%
Net profit attributable to equity shareholders of the Company	**463.5**	469.7	(1.3%)
Basic earnings per share *(RMB)*	**0.230**	0.242	(5.0%)
Gross profit margin	**20.0%**	24.0%	(4.0 ppt)
Net profit margin	**10.2%**	13.8%	(3.6 ppt)
Net Assets	**3,929.8**	3,178.5	23.6%
Net Debt [(1)]	**1,847.2**	1,834.5	0.7%
Net Gearing [(2)]	**47.0%**	57.7%	(10.7 ppt)

Notes:

(1) Net debt equal to total bank borrowings less pledged deposits, time deposits and cash and cash equivalents.

(2) Net gearing is measured as net debt to equity.

The Board of Directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 and the consolidated statement of financial position of the Group as at 31 December 2014, together with the comparative figures for the same period of 2013 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Note	**2014** *RMB'000*	2013 *RMB'000*
Revenue	4	**4,535,670**	3,396,670
Cost of sales		**(3,626,838)**	(2,582,464)
Gross profit		**908,832**	814,206
Other income	5	**26,517**	81,500
Distribution expenses		**(70,500)**	(41,642)
Administrative expenses		**(123,834)**	(109,861)
Other expenses	6	**(58,637)**	(6,716)
Profit from operations		**682,378**	737,487
Finance income		**9,337**	6,285
Finance expenses		**(151,236)**	(131,170)
Net finance costs	7(a)	**(141,899)**	(124,885)
Share of losses of associates		**(2,702)**	(3,646)
Share of profits/(losses) of joint ventures		**6,391**	(237)
Profit before taxation	7	**544,168**	608,719
Income tax	8	**(81,421)**	(138,617)
Profit for the year		**462,747**	470,102
Attributable to:			
Equity shareholders of the Company		**463,466**	469,727
Non-controlling interests		**(719)**	375
Profit for the year		**462,747**	470,102
Earnings per share *(RMB)*	9		
Basic		**0.230**	0.242
Diluted		**0.230**	0.242

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**462,747**	470,102
Other comprehensive income for the year (after tax and reclassification adjustment)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of subsidiaries and equity-accounted investees (net of nil tax)	**(1,404)**	(2,030)
Total comprehensive income for the year	**461,343**	468,072
Attributable to:		
Equity shareholders of the Company	**462,062**	467,697
Non-controlling interests	**(719)**	375
Total comprehensive income for the year	**461,343**	468,072

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Property, plant and equipment		**2,998,727**	2,468,979
Lease prepayments		**75,512**	69,389
Goodwill		**22,086**	22,086
Interest in associates		**33,997**	38,952
Interest in joint ventures		**12,998**	5,419
Other financial assets		**10,000**	10,000
Deferred tax assets		**15,337**	20,940
		3,168,657	2,635,765
Current assets			
Inventories		**1,952,781**	1,978,542
Trade and other receivables	10	**2,114,526**	1,653,855
Pledged deposits		**404,400**	250,236
Time deposits		**543,100**	553,500
Cash and cash equivalents		**181,373**	88,406
		5,196,180	4,524,539
Current liabilities			
Interest-bearing borrowings		**2,342,903**	2,359,182
Trade and other payables	11	**1,340,910**	1,143,560
Current taxation		**60,240**	72,340
Deferred income		**1,162**	1,162
		3,745,215	3,576,244
Net current assets		**1,450,965**	948,295
Total assets less current liabilities		**4,619,622**	3,584,060
Non-current liabilities			
Interest-bearing borrowings		**633,149**	367,423
Deferred income		**16,543**	3,704
Deferred tax liabilities		**40,109**	34,462
		689,801	405,589
Net assets		**3,929,821**	3,178,471
Capital and reserves			
Share capital		**40,167**	35,962
Reserves		**3,887,758**	3,139,894
Total equity attributable to equity shareholder of the Company		**3,927,925**	3,175,856
Non-controlling interests		**1,896**	2,615
Total equity		**3,929,821**	3,178,471

NOTES

1 REPORTING ENTITY

Tiangong International Company Limited (the "Company") was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and joint ventures. The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

2 BASIS OF PREPARATION

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 31 December 2014 but are extracted from those financial statements.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). This announcement also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In addition, this announcement has been reviewed by the Company's Audit Committee.

The figures in respect of this announcement of the Group's results for the year ended 31 December 2014 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in respect of this announcement was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditor on this announcement.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued and the following amendments to IFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended IFRSs are discussed below:

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to IAS 32, Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements as the Group does not have impaired non-financial assets whose recoverable amount is based on fair value less costs of disposal.

Amendments to IAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

IFRIC 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

4 REVENUE AND SEGMENT REPORTING

Revenue represents mainly the sales value of high alloy steel, including high speed steel ("HSS") and die steel ("DS"), HSS cutting tools, trading of goods and titanium alloy after eliminating intercompany transactions. 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:

— *HSS*	The HSS segment manufactures and sells high speed steel for the steel industry.
— *HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.
— *DS*	The DS segment manufactures and sells die steel for the steel industry.
— *Trading of goods*	The trading of goods segment sells aluminum, silicon iron, billet steel, HSS cutting tools and chemical goods (purified terephthalic acid).
— *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.

(a) 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 bases:

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 corporate assets. Segment liabilities include trade and bills payable, non-trade payables, deferred income and accrued expenses attributable to the manufacturing and sales activities of the individual segments.

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.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales) generated by the segments in their operations. Inter-segment sales are 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 years ended 31 December 2014 and 2013 is set out below.

	Year ended and as at 31 December 2014					
	HSS	**HSS cutting tools**	**DS**	**Trading of goods**	**Titanium alloy**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**1,080,892**	**550,448**	**1,660,175**	**1,111,451**	**132,704**	**4,535,670**
Inter-segment revenue	**227,993**	**—**	**—**	**—**	**—**	**227,993**
Reportable segment revenue	**1,308,885**	**550,448**	**1,660,175**	**1,111,451**	**132,704**	**4,763,663**
Reportable segment profit (adjusted EBIT)	**291,451**	**49,139**	**477,747**	**2,868**	**17,127**	**838,332**
Reportable segment assets	**2,383,834**	**1,233,701**	**3,177,264**	**25,499**	**305,367**	**7,125,665**
Reportable segment liabilities	**567,810**	**244,634**	**492,218**	**—**	**27,725**	**1,332,387**

	Year ended and as at 31 December 2013					
	HSS	HSS cutting tools	DS	Trading of goods	Titanium alloy	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	758,572	445,007	1,231,873	897,275	63,943	3,396,670
Inter-segment revenue	156,197	—	—	—	—	156,197
Reportable segment revenue	914,769	445,007	1,231,873	897,275	63,943	3,552,867
Reportable segment profit (adjusted EBIT)	275,556	64,872	419,309	5,441	7,387	772,565
Reportable segment assets	2,015,344	1,050,047	2,789,734	25,888	221,381	6,102,394
Reportable segment liabilities	436,507	196,887	453,205	22,508	13,257	1,122,364

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

	2014	2013
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**4,763,663**	3,552,867
Elimination of inter-segment revenue	**(227,993)**	(156,197)
Consolidated revenue	**4,535,670**	3,396,670

	2014	2013
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**838,332**	772,565
Net finance costs	**(141,899)**	(124,885)
Share of losses of associates	**(2,702)**	(3,646)
Share of profits/(losses) of joint ventures	**6,391**	(237)
Unallocated head office and corporate expenses	**(155,954)**	(35,078)
Consolidated profit before taxation	**544,168**	608,719

	2014	2013
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**7,125,665**	6,102,394
Interest in associates	**33,997**	38,952
Interest in joint ventures	**12,998**	5,419
Other financial assets	**10,000**	10,000
Deferred tax assets	**15,337**	20,940
Pledged deposits	**404,400**	250,236
Time deposits	**543,100**	553,500
Cash and cash equivalents	**181,373**	88,406
Unallocated head office and corporate assets	**37,967**	90,457
Consolidated total assets	**8,364,837**	7,160,304

	2014	2013
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,332,387**	1,122,364
Interest-bearing borrowings	**2,976,052**	2,726,605
Current taxation	**60,240**	72,340
Deferred tax liabilities	**40,109**	34,462
Unallocated head office and corporate liabilities	**26,228**	26,062
Consolidated total liabilities	**4,435,016**	3,981,833

(c) Geographical information

The Group's business is managed on a worldwide basis, but participates in four principal economic environments, 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.

	2014 *RMB'000*	2013 *RMB'000*
Revenue		
The PRC	**3,326,374**	2,125,942
North America	**475,558**	425,504
Europe	**416,311**	404,020
Asia (other than the PRC)	**266,592**	420,247
Others	**50,835**	20,957
Total	**4,535,670**	3,396,670

5 OTHER INCOME

		2014 *RMB'000*	2013 *RMB'000*
Government grants	(i)	**22,300**	57,572
Net foreign exchange gain		**—**	5,298
Dividend income from unlisted securities	(ii)	**800**	800
Reversal of provision for doubtful debts		**—**	2,306
Others		**3,417**	15,524
		26,517	81,500

(i) Tiangong Tools Company Limited ("TG Tools"), a wholly-owned subsidiary of the Company located in the PRC, received unconditional grants amounting to RMB21,138,000 (2013: RMB56,409,000) from the local government in Danyang to reward its contribution to local economy and encourage its innovation of technology. It also recognised amortisation of government grants related to assets of RMB1,162,000 (2013: RMB1,162,000) during the year ended 31 December 2014.

(ii) The Group received dividends totalling to RMB800,000 (2013: RMB800,000) from its unlisted equity investments during the year ended 31 December 2014.

6 OTHER EXPENSES

	2014 *RMB'000*	2013 *RMB'000*
Impairment loss on trade receivables	**39,448**	—
Impairment loss on non-trade receivables	**836**	4,018
Net loss on disposal of property, plant and equipment	**8,265**	1,156
Net foreign exchange loss	**7,413**	—
Others	**2,675**	1,542
	58,637	6,716

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2014	2013
	RMB'000	*RMB'000*
Interest income	**(9,337)**	(6,285)
Finance income	**(9,337)**	(6,285)
Interest on bank loans	**174,093**	153,929
Less: interest expense capitalised into property, plant and equipment under construction*	**(22,857)**	(22,759)
Finance expenses	**151,236**	131,170
Net finance costs	**141,899**	124,885

* The borrowing costs have been capitalised at a rate of 5.69% per annum (2013: 5.13%).

(b) Staff costs

	2014	2013
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**175,877**	169,869
Contributions to defined contribution retirement plans	**18,391**	16,782
Equity-settled share-based payment expenses	**14,173**	—
	208,441	186,651

The Group participates in defined contribution pension funds managed by the PRC local government authorities. According to the respective pension fund regulations, the Group is required to pay annual contributions determined by the respective authorities in the PRC. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) Other items

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories*	**3,626,838**	2,582,464
Depreciation	**173,770**	138,576
Amortisation of lease prepayments	**1,622**	1,583
Auditor's remuneration	**2,700**	2,350
Provision/(reversal) for write-down of inventories	**4,031**	(12,909)
Operating lease charges	**2,312**	1,335

* Cost of inventories includes RMB308,735,000 (2013: RMB250,892,000) relating to staff costs, depreciation expenses and write-down of inventories which are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2014	2013
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**70,171**	109,315
Provision for PRC withholding tax on dividend	**—**	32,165
	70,171	141,480
Deferred tax		
Origination and reversal of temporary differences	**11,250**	(2,863)
	81,421	138,617

(i) 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.

(ii) 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 and Tiangong Aihe Company Limited ("TG Aihe") are subject to a preferential income tax rate of 15% in 2014 available to enterprises which qualify as a High and New Technology Enterprise (2013: 15%).

Tiangong Titan Company Limited ("TG Titan") qualifies as a High and New Technology Enterprise and is subject to a preferential income tax rate of 15% since 2014 (2013: 25%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2013: 25%).

(iii) No provision has been made for Hong Kong profits tax as the subsidiaries located in Hong Kong sustained a loss for taxation purpose for both 2014 and 2013.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**544,168**	608,719
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2013: 25%)	**136,042**	152,180
Effect of preferential tax rates	**(49,567)**	(53,551)
Effect of different tax rates	**(1,159)**	1,201
Effect of change of tax rates	**357**	—
Tax effect of non-deductible expenses	**2,232**	3,242
Tax effect of non-taxable income	**(1,120)**	—
Withholding tax on undistributed profits of subsidiaries	**987**	695
Withholding tax on distributed dividends	**—**	32,165
Recognition of previously unrecognised deductible temporary differences	**—**	(1,892)
(Over)/under-provision in respect of prior year	**(6,351)**	4,577
Actual tax expense	**81,421**	138,617

9 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 RMB463,466,000 (2013: RMB469,727,000) and the weighted average of 2,013,941,800 ordinary shares (2013: 1,940,889,133 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2014	2013
Issued ordinary shares at 1 January	**1,941,160,000**	1,931,000,000
Effect of shares allotment	**69,166,667**	—
Effect of exercise of share options	**5,819,444**	9,889,133
Effect of repurchase of shares	**(2,204,311)**	—
Weighted average number of ordinary shares at 31 December	**2,013,941,800**	1,940,889,133

(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 RMB463,466,000 (2013: RMB469,727,000) and the weighted average number of ordinary shares of 2,015,259,577 shares (2013: 1,944,720,984 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2014	2013
Weighted average number of ordinary shares at 31 December	**2,013,941,800**	1,940,889,133
Effect of equity settled share-based transactions	**875,562**	3,831,851
Effect of warrants	**442,215**	—
Weighted average number of ordinary shares (diluted) at 31 December	**2,015,259,577**	1,944,720,984

10 TRADE AND OTHER RECEIVABLES

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**1,564,099**	1,064,159
Bills receivable	**488,441**	409,632
Less: provision for doubtful debts	**(66,420)**	(26,972)
Net trade and bills receivable	**1,986,120**	1,446,819
Prepayments	**90,450**	116,402
Non-trade receivables	**44,405**	96,247
Less: impairment loss on non-trade receivables	**(6,449)**	(5,613)
Net prepayments and non-trade receivables	**128,406**	207,036
	2,114,526	1,653,855

Substantially all of the trade receivables are expected to be recovered within one year.

Trade receivables of RMB285,273,000 (2013: RMB278,793,000) have been pledged to certain banks as security for the Group to issue bank loans.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of provision for doubtful debts, is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**1,532,947**	1,117,802
4 to 6 months	**321,869**	247,275
7 to 12 months	**94,236**	63,027
1 to 2 years	**24,742**	18,695
Over 2 years	**12,326**	20
	1,986,120	1,446,819

Trade debtors and bills receivable are due within 120 days from the date of billing.

(b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly.

The movement in the provision for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**26,972**	29,278
Provision/(reversal of provision) for doubtful debts	**39,448**	(2,306)
At 31 December	**66,420**	26,972

(c) Trade and bills receivable that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,427,285**	1,222,695
Less than 3 months past due	**11,374**	1,895
More than 3 months but less than 6 months past due	**997**	516
More than 6 months past due	**5,546**	6,375
Amounts past due but not impaired	**17,917**	8,786
	1,445,202	1,231,481

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills payable	**1,185,234**	953,617	**—**	—
Non-trade payables and accrued expenses	**155,676**	189,943	**2,108**	2,932
	1,340,910	1,143,560	**2,108**	2,932

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within 3 months	**848,182**	598,238
4 to 6 months	**263,943**	292,680
7 to 12 months	**41,181**	35,528
1 to 2 years	**16,986**	11,834
Over 2 years	**14,942**	15,337
	1,185,234	953,617

12 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2014	2013
	RMB'000	*RMB'000*
Dividend proposed after the end of the reporting period of RMB0.0418 per ordinary share (2013: RMB0.0494 per ordinary share)	**92,693**	95,939

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2014	2013
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0494 per ordinary share (2013: RMB0.0461 per ordinary share)	**96,056**	89,487

In respect of the final dividend for the year ended 31 December 2014, there is a difference of RMB117,000 (2013: RMB468,000) between the final dividend disclosed in the 2013 annual financial statements and amounts approved and paid during the year which represents dividends attributable to shares issued upon the exercise of 6,040,000 share options (2013: exercise of 10,160,000 share options), before the closing date of the register of members.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

	For the year ended 31 December					
	2014		2013		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
Die steel	**1,660,175**	**36.6**	1,231,873	36.3	428,302	34.8
HSS	**1,080,892**	**23.8**	758,572	22.3	322,320	42.5
HSS cutting tools	**550,448**	**12.1**	445,007	13.1	105,441	23.7
Titanium alloy	**132,704**	**2.9**	63,943	1.9	68,761	107.5
Trading of goods	**1,111,451**	**24.6**	897,275	26.4	214,176	23.9
	4,535,670	**100.0**	3,396,670	100.0	1,139,000	33.5

Die steel — accounted for 36.6% of the Group's revenue in FY 2014

	For the year ended 31 December					
	2014		2013		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
DS						
Domestic	**981,908**	**59.1**	688,711	55.9	293,197	42.6
Export	**678,267**	**40.9**	543,162	44.1	135,105	24.9
	1,660,175	**100.0**	1,231,873	100.0	428,302	34.8

Die steel ("DS"), manufactured with the metals molybdenum, chromium and vanadium, a type of high alloy special steel manufactured using a production process similar to that used to manufacture HSS. Die steel is mainly used in die and mould casting as well as machining processing. Many different manufacturing industries require moulds, including automotive, high-speed railway construction, aviation and plastic product manufacturing.

During the year, revenue generated from DS rose by 34.8% to RMB1,660,175,000 (2013: RMB1,231,873,000). 59.1% of the segment revenue was derived from domestic market while export sales accounted for the remaining 40.9%. The increase was mainly attributed to the success of marketing expansion in both domestic and oversea markets.

HSS — accounted for 23.8% of the Group's revenue in FY2014

	For the year ended 31 December					
	2014		2013		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
HSS						
Domestic	**871,170**	**80.6**	508,773	67.1	362,397	71.2
Export	**209,722**	**19.4**	249,799	32.9	(40,077)	(16.0)
	1,080,892	**100.0**	758,572	100.0	322,320	42.5

HSS, manufactured with the metals tungsten, molybdenum, chromium and vanadium, is characterized 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, internal-combustion engines and roll, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation, and electronics industries.

Revenue from HSS increased by 42.5% to RMB1,080,892,000 (2013: RMB758,572,000). The increase was mainly attributed to a recovery in the domestic market which led to the increased demand in HSS. In addition, the Group developed new higher end products such as M42 to further capture the market shares. The Group continued to be the leading manufacturer of HSS in home market. The decrease in oversea sales was attributable to the weakening of Euro and the decrease in demand.

HSS cutting tools — accounted for 12.1% of the Group's revenue in FY 2014

	For the year ended 31 December					
	2014		2013		Change	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
HSS cutting tools						
Domestic	**209,947**	**38.1**	95,479	21.5	114,468	119.9
Export	**340,501**	**61.9**	349,528	78.5	(9,027)	(2.6)
	550,448	**100.0**	445,007	100.0	105,441	23.7

HSS cutting tool products can be categorized into four major types — twist drill bits, screw taps, end mills and turning tools. All of these are used in industrial manufacturing. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tool production brought us a significant cost advantage over our peers.

In 2014, revenue generated from HSS cutting tools increased by approximately 23.7% to RMB550,448,000 (2013: RMB445,007,000). Export sales, which accounted for 61.9% of the product revenue, continued to remain stable with slight decrease of 2.6%. The increase in domestic market was due to the recovery of the domestic market and the development of higher end products such as taps which has a higher selling price compared with drill bits.

Titanium alloy — increased by 107.5% in 2014

Titanium alloy is lighter, stronger and has a higher corrosion resistance compared to aluminum alloy. Thus, it finds applications in aviation, marine engineering and the medical industries. Its production involves sponge titanium as well as other various rare metals.

During the year, titanium alloy revenue increased by 107.5% to RMB132,704,000 (2013: RMB63,943,000). Titanium alloy segment is currently in the market development stage. Nevertheless, satisfactory results have been achieved from this segment. Aerospace, chemical processing, military and other industrial applications are the main sectors consuming titanium alloy. The Group aims to offer a broader range of products with higher grades and specifications to meet demands from various industries.

The production of titanium and titanium alloy is both capital and technology intensive. Thus, it is an industry with high entry barrier. Currently, only a limited number of companies in China are engaged in titanium alloy production.

Trading of goods

This segment involves the purchase and sales of goods which mainly comprises purified terephthalic acid and billet. Due to its slim profitability, the Group will spend less focus in this segment in the future.

Financial Review

Net profit attributable to equity shareholders of the Company decreased by 1.3% from RMB469,727,000 in 2013 to RMB463,466,000 in 2014. The decrease was mainly the combined effects of the Group's increase in provision for doubtful debts, increase in share option expense and decrease of government grant.

Revenue

Revenue for the Group for 2014 totaled 4,535,670,000, representing an increase of 33.5% as compared with RMB3,396,670,000 in the previous year. The increase was mainly due to the increase in sales in DS and HSS.

Cost of sales

The Group's cost of sales was RMB3,626,838,000 in 2014, representing an increase of 40.4% as compared with RMB2,582,464,000 in 2013. As a percentage of total revenue, the Group's cost of sales increased to 80.0% during the year (2013: 76.0%). The increase was mainly due to the increase in production costs.

Gross margin

For 2014, the overall gross margin was approximately 20.0% (2013: 24.0%). Set out below is the gross margin of our five products segments in 2014 and 2013:

	2014	2013
DS	**31.5%**	36.1%
HSS	**28.1%**	37.4%
Cutting Tools	**11.1%**	16.5%
Titanium	**12.9%**	11.6%
Others	**0.3%**	0.6%

DS

The gross margin of DS decreased from 36.1% in 2013 to 31.5% in 2014. The decrease was mainly due to the decrease in average selling price of individual products and the increase in production costs.

HSS

The gross margin of HSS decreased from 37.4% in 2013 to 28.1% in 2014. The decrease was mainly due to the decrease in average selling price of individual products and the increase in production costs.

HSS cutting tools

The gross margin of HSS cutting tools decreased from 16.5% in 2013 to 11.1% in 2014 as a result of the general increase in production costs.

Titanium alloy

The gross margin of titanium alloy increased to 12.9% in 2014 from 11.6% in 2013. The increase was due to the increase in sales volume so that fixed costs were amortised to more units of goods sold and therefore the per-unit product costs decreased.

Trading of goods

The gross margin of the this segment remained stable at 0.3% (2013: 0.6%).

Other income

Other income decreased from RMB81,500,000 in 2013 to RMB26,517,000 this year. The decrease was mainly due to the decrease of government grants from RMB57,572,000 in 2013 to RMB22,300,000 this year.

Distribution expenses

Distribution expenses in 2014 were RMB70,500,000 (2013: RMB41,642,000), representing an increase of approximately 69%. The increase was mainly attributable to the increase in transportation expenses due to the increase of sales volume. For 2014, the distribution expenses as a percentage of revenue was 1.6% (2013: 1.2%).

Administrative expenses

Administrative expenses increased from RMB109,861,000 in 2013 to RMB123,834,000 this year. The increase was mainly due to the increase of share option expenses of RMB14,173,000. For 2014, administrative expenses as a percentage of revenue was 2.7% (2013: 3.2%).

Other expenses

Other expenses increased from RMB6,716,000 in 2013 to RMB58,637,000 this year. Approximately RMB39,448,000 of the increase relates to higher provisions for doubtful debts related to the worsening financial position and slower settlement record of certain customers.

Net finance costs

The Group's finance income was RMB9,337,000 for 2014, representing an increase of RMB3,052,000 primarily due to the increase in average bank deposits in 2014. The Group's finance expense was RMB151,236,000 in 2014, representing an increase of 15.3% from RMB131,170,000 in 2013. The increase was attributable to the increase in interest-bearing borrowings in 2014 compared with last year.

Income tax

As set out in Note 8 above, the Group's income tax decreased by 41.3% from RMB138,617,000 in 2013 to RMB81,421,000 in 2014, mainly because of changes in the amounts of withholding taxes recognized on paid and expected dividend payments within the group for the respective years.

Profit for the year attributable to equity shareholders of the Company

As a result of the factors discussed above, the Group's profit decreased by approximately 1.3% from RMB469,727,000 in 2013 to RMB463,466,000 in 2014. The net profit margin decreased from 13.8% in 2013 to 10.2% in 2014.

Total comprehensive income for the year attributable to equity shareholders of the Company

For 2014, total comprehensive income for the year attributable to equity shareholders of the Company was RMB462,062,000 (2013: RMB467,697,000) after taking into account foreign currency translation differences.

Trade and bills receivable

The trade and bills receivable increased from RMB1,446,819,000 in 2013 to RMB1,986,120,000 in 2014 which was mainly due to the increase in sales in the fourth quarter in 2014 as compared with the fourth quarter sales in 2013. Approximately 71.9% of the trade and bills receivable were neither past due nor impaired. During the year, the provision for doubtful debts was increased by RMB39,448,000 to reflect the worsening financial position and slower settlement record of certain customers.

Outlook

During the year, the Group sustained the growth momentum despite the unstable global economic environment. Going forward into 2015, the general economic conditions and the operating environment will continue to remain challenging.

The Group will strive to setup new sales offices and capture opportunities in different markets such as Canada, Mexico and Turkey to diversify our customer portfolio and capture the opportunities in other markets. The Group will also continue to develop the E-commerce platform to further expand our sales network.

In order to stay competitive, the Group will continue to contain costs and improve efficiency. We believe cost reduction in the long term could only be accomplished by increasing automation. We will continue to replace our old equipment with advance and automated equipment in each segment.

We are continuing to develop new higher end products in HSS, DS and cutting tools to increase our influence in these industries. Apart from the traditional core segments, we continue to develop the sales network and expand the product portfolio for titanium. Due to the slim profitability of trading of goods, the Group will spend less resources and focus in this segment in the future.

Last but not the least, we wish to re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance, will always remain our top priority.

Forward Looking Statements

This management discussion and analysis contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company'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 including shareholders and investors 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.

Liquidity and Financial Resources

As at 31 December 2014, the Group's current assets mainly included cash and cash equivalents of approximately RMB181,373,000, inventories of approximately RMB1,952,781,000, trade and other receivables of RMB2,114,526,000, pledged deposits of RMB404,400,000 and time deposits of RMB543,100,000. As at 31 December 2014, the interest-bearing borrowings of the Group were RMB2,976,052,000, RMB2,342,903,000 of which were repayable within one year and RMB633,149,000 of which were repayable after more than 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) as at 31 December 2014 was 47.0% (2013: 57.7%).

The increase in borrowings was mainly attributable to the increase in working capital and the addition of machinery. As at 31 December 2014, borrowings of RMB1,909,460,000 were in RMB, USD159,433,000 were in USD and EUR12,210,000 were in EUR. The borrowings of the Group were subject to interests payable at rates ranging from 1.55% to 6.72% per annum. The Group did not enter into any interest rate swaps to hedge itself against the risks associated with interest rates.

During the year, the net cash generated from operating activities was RMB566,196,000 (2013: RMB87,087,000).

Capital Expenditure and Capital Commitments

For 2014, the Group's net increase in fixed assets amounted to RMB529,748,000, which were mainly for the production plant and facilities for HSS, DS and titanium alloy and were financed by a combination of our internal cash resources and operating cash flows and bank borrowings. As at 31 December 2014, capital commitments were RMB142,427,000, of which RMB31,893,000 were contracted and RMB110,534,000 were authorised but not contracted for. The majority of the capital commitments were related to investment to completion production equipment installation and will also be financed by a combination of our internal cash resources and operating cash flows and bank borrowings.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, US dollars and Euros, with RMB accounting for the largest portion (approximately 73.3%). Approximately 26.7% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in the light of foreign exchange fluctuations and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 31 December 2014, the Group pledged certain bank deposits amounting to approximately RMB404,400,000 (2013: RMB250,236,000) and certain trade receivables amounting to approximately RMB285,273,000 (2013: RMB278,793,000).

Employees' Remuneration and Training

As at 31 December 2014, the Group employed around 3,451 employees (2013: around 3,704 employees). Total staff costs during the year amounted to RMB208,441,000 (2013: RMB186,651,000). 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 training for all of its staff on a regular basis.

Contingent Liabilities

On 21 March 2014, TG Tools issued a guarantee to a bank in respect of a bank facility granted to TGT Special Steel Company Limited ("TGT"), which expires on 16 January 2015. As at 31 December 2014, the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the reporting date under the guarantee issued is the outstanding amount of the facility drawn down by TGT of USD2,000,000 (equivalent to RMB12,306,000). Included in bank deposits, RMB12,600,000 was pledged for the bank facility granted to TGT.

On 23 June 2014, TG Tools issued a guarantee to a bank in respect of a bank facility granted to Czechtools and Materials S.R.O. ("CTM") which expires on 22 June 2015. As at 31 December 2014, the directors do not consider it probable that a claim will be made against the Group under the guarantee. The maximum liability of the Group at the reporting date under the guarantee issued is the outstanding amount of the facility drawn down by CTM of EUR1,600,000 (equivalent to RMB13,431,000). Included in bank deposits, RMB14,000,000 was pledged for the bank facility granted to CTM.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 May 2015 to 20 May 2015 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "Annual General Meeting") on 20 May 2015, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 14 May 2015.

The Board has resolved to recommend the payment of a final dividend of RMB0.0418 per share for the year ended 31 December 2014 (2013: RMB0.0494) to shareholders of the Company whose names appear on the Register of Members of the Company on 29 May 2015. The Register of Members will be closed from 27 May 2015 to 29 May 2015, both days inclusive, and the proposed final dividend is expected to be paid on or before 30 July 2015. The payment of dividends shall be subject to the approval of the shareholders of the Company at the Annual General Meeting expected to be held on 20 May 2015. In order to qualify for the proposed dividend, shareholders of the Company should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 26 May 2015.

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "Scheme") in July 2007. On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the directors and employees of the Company in respect of their services to the Group. These share options had vested on 1 July 2012 and have an initial exercise price of HKD5.10 per share of USD0.01 each and an exercise period ranging from 1 July 2012 to 30 June 2016. The closing price of the Company's shares at the date of grant was HKD5.10 per share of USD0.01 each. Due to the implementation of share subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the share option scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275.

On 17 January 2014, options entitled holders to subscribe for a total of 9,002,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. These share options were vested on 1 June 2014 and have an initial exercise price of HKD2.50 per share of USD0.0025 each and an exercise period ranging from 1 June 2014 to 31 May 2016. The closing price of the Company's shares at the date of grant was HKD2.48 per share of USD0.0025 each.

On 18 August 2014, options entitled holders to subscribe for a total of 22,147,000 shares of USD0.0025 each were granted to and accepted by certain directors and employees of the Company in respect of their services to the Group. 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. The closing price of the Company's shares at the date of grant was HKD1.78 per share of USD0.0025 each.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2014, the Company issued 300,000,000 new ordinary shares of HKD1.75 each. Total proceeds of approximately RMB415,007,000, net of share issuance expenses of RMB17,080,000, were raised for general working capital.

During the year ended 31 December 2014, the Company repurchased 27,120,000 shares in total, at an aggregate purchase prices of HKD41,888,000 on The Stock Exchange of Hong Kong Limited. All these shares have been cancelled upon the repurchase. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the mandate from shareholders, with a view to benefit shareholders as a whole in enhancing the net assets and earnings per share of the Company.

On 7 February 2014, an aggregate of 40,000,000 warrants were issued to six placees in accordance with the terms of the warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant (No warrants were issued during the year ended 31 December 2013). The holders of the warrants shall have the right to subscribe for 40,000,000 of the Company's ordinary shares at an initial exercise price of RMB2.07 per ordinary share (equivalent to approximately HKD2.65 at a fixed exchange rate of RMB1 to HKD1.2807) per share within 3 years from the date of issue.

On 14 July 2014, a warrant subscription agreement was entered into between the Company and a subscriber whereby the Company has agreed to create and issue and the subscriber has agreed to subscribe for 70,000,000 warrants at the purchase price of HKD0.02 per warrant. Each warrant will entitle the holder to subscribe for one ordinary share of the Company at a subscription price of RMB1.36 (equivalent to approximately HKD1.70 at a fixed exchange rate of RMB1 to HKD1.2506) per share, subject to adjustment, during a period of one year commenced from 14 July 2014.

The proceeds from the above warrant subscriptions, being RMB629,000 and RMB1,111,000, respectively, have been used for payment of the costs and expenses in connection with the warrant subscription and used as general working capital of the Company. Any additional proceeds from the issue of the shares upon the exercise of the subscription rights attaching to the warrants in future will be applied as general working capital and as funds for future development of the Group.

Save for disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2014, 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. One of the INEDs, namely Mr. Yin Shuming was unable to attend the annual general meeting of the Company held on 21 May 2014 due to health reasons.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 24 March 2015 to consider and review the 2014 annual report and annual financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considered that the 2014 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). All of the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors and employees who may possess or have access to price sensitive information or inside information during the year ended 31 December 2014.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2014 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

The Board of Directors would like to take this opportunity to express gratitude to our shareholders, customers, the management and employees for their unreserved support to the Group.

By Order of the Board
Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 25 March 2015

As at the date of this announcement, the directors of the Company are:

Executive Directors: ZHU Xiaokun, WU Suojun, YAN Ronghua and JIANG Guangqing

Independent non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis, YIN Shuming

* *For identification purpose*