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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 2016

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Year ended 31 December 2016	Year ended 31 December 2015	Change
Revenue	**3,376.1**	3,429.4	(1.6%)
Gross profit	**372.2**	391.3	(4.9%)
Net profit attributable to equity shareholders of the Company	**110.6**	72.6	52.3%
Basic earnings per share *(RMB)*	**0.050**	0.033	51.5%
Gross profit margin	**11.0%**	11.4%	(0.4ppt)
Net profit margin	**3.3%**	2.1%	1.2ppt
Net Assets	**4,155.4**	3,876.3	7.2%
Net Debt [(1)]	**1,809.2**	1,898.0	(4.7%)
Net Gearing [(2)]	**43.5%**	49.0%	(5.5ppt)

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 (collectively the "Group") for the year ended 31 December 2016 and the consolidated statement of financial position of the Group as at 31 December 2016, together with the comparative figures for the same period of 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Note	**2016** *RMB'000*	2015 *RMB'000*
Revenue	*4*	**3,376,134**	3,429,397
Cost of sales		**(3,003,942)**	(3,038,061)
Gross profit		**372,192**	391,336
Other income	*5*	**76,299**	19,324
Distribution expenses		**(66,264)**	(67,855)
Administrative expenses		**(142,918)**	(115,404)
Other operating expenses	*6*	**(12,294)**	(14,154)
Profit from operations		**227,015**	213,247
Finance income		**9,398**	8,521
Finance expenses		**(112,697)**	(149,240)
Net finance costs	*7(a)*	**(103,299)**	(140,719)
Share of profits of associates		**7,751**	5,857
Share of (losses)/profits of joint ventures		**(551)**	6,820
Profit before taxation	*7*	**130,916**	85,205
Income tax	*8*	**(14,920)**	(13,074)
Profit for the year		**115,996**	72,131
Attributable to:			
Equity shareholders of the Company		**110,571**	72,623
Non-controlling interests		**5,425**	(492)
Profit for the year		**115,996**	72,131
Earnings per share *(RMB)*	*9*		
Basic		**0.050**	0.033
Diluted		**0.050**	0.033

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**115,996**	72,131
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 Hong Kong subsidiaries and overseas equity-accounted investees (net of nil tax)	**(27,642)**	(27,787)
Available-for-sales securities		
– net movement in the fair value reserve (net of tax of RMB12,945,000)	**73,355**	–
Other comprehensive income for the year	**45,713**	(27,787)
Total comprehensive income for the year	**161,709**	44,344
Attributable to:		
Equity shareholders of the Company	**156,284**	44,836
Non-controlling interests	**5,425**	(492)
Total comprehensive income for the year	**161,709**	44,344

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		**3,444,164**	3,243,542
Lease prepayments		**72,624**	74,372
Goodwill		**21,959**	21,959
Interest in associates		**46,484**	38,503
Interest in joint ventures		**25,343**	24,509
Other financial assets		**96,300**	10,000
Deferred tax assets		**30,146**	20,089
		3,737,020	3,432,974
Current assets			
Inventories		**1,901,775**	1,886,643
Trade and other receivables	*10*	**1,577,383**	1,895,480
Pledged deposits		**180,180**	445,389
Time deposits		**640,000**	400,000
Cash and cash equivalents		**259,546**	323,486
		4,558,884	4,950,998
Current liabilities			
Interest-bearing borrowings		**2,678,912**	2,580,896
Trade and other payables	*11*	**1,145,129**	1,347,335
Current taxation		**1,560**	–
Deferred income		**5,840**	1,162
		3,831,441	3,929,393
Net current assets		**727,443**	1,021,605
Total assets less current liabilities		**4,464,463**	4,454,579

	2016	2015
	RMB'000	*RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**210,000**	485,978
Deferred income	**43,876**	48,168
Deferred tax liabilities	**55,153**	44,146
	309,029	578,292
Net assets	**4,155,434**	3,876,287
Capital and reserves		
Share capital	**40,167**	40,167
Reserves	**3,977,548**	3,836,120
Total equity attributable to equity shareholder of the Company	**4,017,715**	3,876,287
Non-controlling interests	**137,719**	–
Total equity	**4,155,434**	3,876,287

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 2016 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 2016 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 2016 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 a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's results and financial position. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

Revenue represents mainly the sales value of high alloy steel, (including die steel ("DS") and high speed steel ("HSS")), cutting tools (formerly categorised as HSS cutting tools), titanium alloy and trading of goods 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:

– *DS*	The DS segment manufactures and sells the material that used in die set manufacturing industry.
– *HSS*	The HSS segment manufactures and sells the material that used in tools manufacturing industry.
– *Cutting tools*	The cutting tools segment manufactures and sells HSS and carbide cutting tools for the tool industry.
– *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.
– *Trading of goods*	The trading of goods segment sells general carbon steel products that are not within our production capacity.

(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 bills payable, trade and non-trade payables, deferred income and accrued expenses attributable to the manufacturing and sales activities of the individual segments, with the exception of interest-bearing borrowing, current taxation, deferred tax liabilities and other head office and corporate liabilities.

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 revenue) generated by the segments in their operations. Inter-segment revenue is 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 2016 and 2015 is set out below.

	Year ended and as at 31 December 2016					
	DS	**HSS**	**Cutting tools**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**1,262,376**	**395,239**	**527,821**	**234,295**	**956,403**	**3,376,134**
Inter-segment revenue	**–**	**341,150**	**–**	**–**	**–**	**341,150**
Reportable segment revenue	**1,262,376**	**736,389**	**527,821**	**234,295**	**956,403**	**3,717,284**
Reportable segment profit (adjusted EBIT)	**156,592**	**64,934**	**49,567**	**32,965**	**1,870**	**305,928**
Reportable segment assets	**3,040,930**	**2,136,121**	**1,328,101**	**436,820**	**11**	**6,941,983**
Reportable segment liabilities	**591,689**	**342,342**	**178,869**	**45,026**	**–**	**1,157,926**

	Year ended and as at 31 December 2015					
	DS	HSS	Cutting tools	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,017,875	678,679	514,857	173,361	1,044,625	3,429,397
Inter-segment revenue	–	235,536	–	–	–	235,536
Reportable segment revenue	1,017,875	914,215	514,857	173,361	1,044,625	3,664,933
Reportable segment profit (adjusted EBIT)	114,747	119,966	64,456	22,511	1,801	323,481
Reportable segment assets	3,153,877	2,271,620	1,330,523	334,402	1,953	7,092,375
Reportable segment liabilities	543,883	596,742	207,943	19,861	–	1,368,429

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**3,717,284**	3,664,933
Elimination of inter-segment revenue	**(341,150)**	(235,536)
Consolidated revenue	**3,376,134**	3,429,397

	2016	2015
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**305,928**	323,481
Net finance costs	**(103,299)**	(140,719)
Share of profits of associates	**7,751**	5,857
Share of (losses)/profits of joint ventures	**(551)**	6,820
Unallocated head office and corporate expenses	**(78,913)**	(110,234)
Consolidated profit before taxation	**130,916**	85,205

	2016	2015
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**6,941,983**	7,092,375
Trade and other receivables *(note 10)*	**–**	3,192
Interest in associates	**46,484**	38,503
Interest in joint ventures	**25,343**	24,509
Other financial assets	**96,300**	10,000
Deferred tax assets	**30,146**	20,089
Pledged deposits	**180,180**	445,389
Time deposits	**640,000**	400,000
Cash and cash equivalents	**259,546**	323,486
Unallocated head office and corporate assets	**75,922**	26,429
Consolidated total assets	**8,295,904**	8,383,972

	2016	2015
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,157,926**	1,368,429
Interest-bearing borrowings	**2,888,912**	3,066,874
Current taxation	**1,560**	–
Deferred tax liabilities	**55,153**	44,146
Unallocated head office and corporate liabilities	**36,919**	28,236
Consolidated total liabilities	**4,140,470**	4,507,685

(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.

	2016	2015
	RMB'000	*RMB'000*
Revenue		
The PRC	**2,293,882**	2,429,261
North America	**385,198**	335,144
Europe	**471,536**	417,166
Asia (other than the PRC)	**182,559**	198,636
Others	**42,959**	49,190
Total	**3,376,134**	3,429,397

For the year ended 31 December 2016, the Group's customer base is diversified and includes one customer (2015: one customer) with whom transactions have exceeded 10% but were less than 30% of the Group's revenue.

5 OTHER INCOME

		2016	2015
		RMB'000	*RMB'000*
Government grants	*(i)*	**36,013**	6,808
Net foreign exchange gain		**–**	7,632
Dividend income from unlisted securities		**–**	800
Reversal of impairment loss on non-current receivables		**–**	312
Reversal of impairment loss on trade receivables		**39,308**	–
Others		**978**	3,772
		76,299	19,324

(i) The subsidiaries of the Group, including Jiangsu Tiangong Tools Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe") and Jiangsu Tiangong Technology Company Limited ("TG Tech"), located in the PRC, collectively received unconditional grants amounting to RMB30,399,000 (2015: RMB5,646,000) from the local government to reward their contribution to local economy and encourage technology innovation. TG Tools and TG Tech also recognised amortisation of government grants related to assets of RMB5,614,000 (2015: RMB1,162,000) during the year ended 31 December 2016.

6 OTHER OPERATING EXPENSES

	2016	2015
	RMB'000	*RMB'000*
Impairment loss on trade receivables	**–**	10,198
Net loss on disposal of property, plant and equipment	**675**	2,541
Net foreign exchange loss	**11,619**	–
Others	**–**	1,415
	12,294	14,154

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2016	2015
	RMB'000	*RMB'000*
Interest income	**(9,398)**	(8,521)
Finance income	**(9,398)**	(8,521)
Interest on bank loans	**133,395**	169,427
Less: interest expense capitalised into property, plant and equipment under construction*	**(20,698)**	(20,187)
Finance expenses	**112,697**	149,240
Net finance costs	**103,299**	140,719

* *The borrowing costs have been capitalised at a rate of 4.80% per annum (2015: 4.90%).*

(b) Staff costs

	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**212,158**	170,237
Contributions to defined contribution retirement plans	**21,207**	19,003
Equity-settled share-based payment expenses	**2,253**	–
	235,618	189,240

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

	2016 *RMB'000*	2015 *RMB'000*
Depreciation of property, plant and equipment	**211,877**	190,416
Amortisation of lease prepayments	**1,748**	1,655
Impairment losses on trade and other receivables (reversed)/ recognised	**(39,308)**	9,886
Auditor's remuneration	**2,500**	3,050
Operating lease charges	**1,445**	2,683
Cost of inventories*	**3,003,942**	3,038,061

* *Cost of inventories includes RMB350,434,000 (2015: RMB319,911,000) 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:

	2016 *RMB'000*	2015 *RMB'000*
Current tax		
Provision for PRC income tax	**24,645**	12,956
Provision for Hong Kong Profits Tax	**2,270**	1,900
	26,915	14,856
Deferred tax		
Origination and reversal of temporary differences	**(11,995)**	(1,782)
	14,920	13,074

(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, TG Aihe and TG Tech are subject to a preferential income tax rate of 15% in 2016 available to enterprises which qualify as a High and New Technology Enterprise (2015: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2015: 25%).

The income tax law of the PRC and its relevant regulations also impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

(iii) Hong Kong profits tax has been provided for Tiangong Development Hong Kong Company Limited ("TG Development") at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2016.

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**130,916**	85,205
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2015: 25%)	**32,729**	21,301
Effect of preferential tax rates	**(12,027)**	(2,910)
Effect of different tax rates	**(1,169)**	(1,037)
Tax effect of non-deductible expenses	**1,517**	163
Tax effect of non-taxable income	**(548)**	(2,011)
Tax effect of bonus deduction for research and development expenses	**(4,500)**	(4,500)
Recognition of previously unrecognised deductible temporary difference	**(2,112)**	–
Under-provision in respect of prior year	**1,030**	2,068
Actual tax expense	**14,920**	13,074

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 RMB110,571,000 (2015: RMB72,623,000) and the weighted average of 2,220,080,000 ordinary shares (2015: 2,220,080,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
Issued and weighted average number of ordinary shares at 1 January and 31 December	**2,220,080,000**	2,220,080,000

(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 RMB110,571,000 (2015: RMB72,623,000) and the weighted average number of ordinary shares of 2,222,429,272 shares (2015: 2,220,080,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016	2015
Weighted average number of ordinary shares at 31 December	**2,220,080,000**	2,220,080,000
Effect of equity settled share-based transactions	**2,349,272**	–
Weighted average number of ordinary shares (diluted) at 31 December	**2,222,429,272**	2,220,080,000

The calculation of diluted earnings per share for the year ended 31 December 2016 did not include the potential effects of 22,147,000 (2015: 34,284,000) shares options and 40,000,000 (2015: 40,000,000) shares warrants during the year as they have anti-dilutive effects on the basic earnings per share for the year.

10 TRADE AND OTHER RECEIVABLES

	2016 ***RMB'000***	2015 *RMB'000*
Trade receivables	**988,696**	1,217,005
Bills receivables	**416,596**	529,771
Less: impairment losses	**(37,310)**	(76,618)
Net trade and bills receivables	**1,367,982**	1,670,158
Prepayments	**125,342**	186,298
Current taxation	**–**	3,192
Non-trade receivables	**84,059**	41,969
Less: impairment losses on non-trade receivables	**–**	(6,137)
Net prepayments and non-trade receivables	**209,401**	225,322
	1,577,383	1,895,480

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

Trade receivables of RMB147,748,000 (2015: RMB91,509,000) have been pledged to a bank as security for the Group to borrow bank loans.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of impairment losses, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**1,118,311**	1,246,347
4 to 6 months	**144,452**	279,986
7 to 12 months	**74,003**	76,963
1 to 2 years	**17,319**	54,985
Over 2 years	**13,897**	11,877
	1,367,982	1,670,158

Trade and bills receivables are due from 90 to 180 days from the date of billing.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables 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 receivables directly.

The movement in the impairment losses during the year, including both specific and collective loss components, is as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**76,618**	66,420
Impairment loss (reversed)/recognised	**(39,308)**	10,198
At 31 December	**37,310**	76,618

(c) **Trade and bills receivables that are not impaired**

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,123,111**	1,204,931
Less than 3 months past due	**23,421**	13,961
3 to 6 months past due	**2,471**	2,556
Over 6 months past due	**15,506**	13,772
Amounts past due but not impaired	**41,398**	30,289
	1,164,509	1,235,220

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

	2016	2015
	RMB'000	*RMB'000*
Trade and bills payable	**957,754**	1,191,611
Non-trade payables and accrued expenses	**187,375**	155,724
	1,145,129	1,347,335

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:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**472,360**	711,435
4 to 6 months	**405,858**	376,429
7 to 12 months	**34,522**	31,251
1 to 2 years	**16,182**	56,614
Over 2 years	**28,832**	15,882
	957,754	1,191,611

12 DIVIDENDS

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

	2016	2015
	RMB'000	*RMB'000*
Dividend proposed after the end of the reporting period of RMB0.0100 per ordinary share (2015: RMB0.0065 per ordinary share)	**22,114**	14,525

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 in respect of previous financial year, approved and paid during the year

	2016	2015
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0065 per ordinary share (2015: RMB0.0418 per ordinary share)	**14,912**	96,402

In respect of the final dividend for the year ended 31 December 2015, there is a difference of RMB387,000 (2014: RMB3,709,000) between the final dividend disclosed in the 2015 annual financial statements and amounts approved and paid during the year which is mainly due to the RMB/HKD exchange rate difference between the fixed middle average exchange rate on the date of the 2015 annual result announcement and the actual exchange rate applied on the date of payment.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

Revenue

	For the year ended 31 December					
	2016		2015		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
DS	**1,262,376**	**37.5**	1,017,875	29.7	244,501	24.0
HSS	**395,239**	**11.7**	678,679	19.8	(283,440)	(41.8)
Cutting tools (formerly categorised as HSS cutting tools)	**527,821**	**15.6**	514,857	15.0	12,964	2.5
Titanium alloy	**234,295**	**6.9**	173,361	5.1	60,934	35.1
Trading of goods	**956,403**	**28.3**	1,044,625	30.4	(88,222)	(8.4)
	3,376,134	**100.0**	3,429,397	100.0	(53,263)	(1.6)

DS – accounted for 37.5% of the Group's revenue in FY 2016

	For the year ended 31 December					
	2016		2015		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
DS						
Domestic	**638,862**	**50.6**	333,637	32.8	305,225	91.5
Export	**623,514**	**49.4**	684,238	67.2	(60,724)	(8.9)
	1,262,376	**100.0**	1,017,875	100.0	244,501	24.0

DS is manufactured with rare metals molybdenum, chromium and vanadium, a type of high alloy special steel manufactured using a production process similar to that used to manufacture HSS. DS 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 segment increased by approximately 24.0% to RMB1,262,376,000 (2015: RMB1,017,875,000). The Group's domestic revenue in DS increased by 91.5% to RMB638,862,000 (2015: RMB333,637,000), contributing to 50.6% of the segment revenue for the year. The increase in domestic revenue was mainly because of the recovery in demand from domestic high-end equipment manufacturing industry, especially, for moulding materials, which drove up the sales volume of the Group's DS products.

The speed of recovery in overseas markets was relatively slow comparing to the domestic market. The average selling price of DS products in overseas markets was not yet fully recovered to the same level as in 2015. However, with the Group's prior effort devoted to expanding the overseas markets, the negative impact on revenue due to the slower recovery was minimised. As a result, the Group's export revenue decreased by 8.9% to RMB623,514,000 (2015: RMB684,238,000).

HSS – accounted for 11.7% of the Group's revenue in FY 2016

	For the year ended 31 December					
	2016		2015		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**262,817**	**66.5**	471,250	69.4	(208,433)	(44.2)
Export	**132,422**	**33.5**	207,429	30.6	(75,007)	(36.2)
	395,239	**100.0**	678,679	100.0	(283,440)	(41.8)

HSS, manufactured with rare metals including 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.

Global HSS market was in a recession period during the year. Demand of HSS in both domestic and overseas markets was weak and the Group experienced price pressure globally, especially in domestic markets. As a result, domestic revenue significantly decreased by 44.2% to RMB262,817,000 (2015: RMB471,250,000).

Compare to the domestic market, the more sustainable average selling price in the overseas markets moderated the reduction in export revenue, which still resulted in a net decrease by 36.2% to RMB132,422,000 (2015: RMB207,429,000).

Cutting tools (formerly categorised as HSS cutting tools) – accounted for 15.6% of the Group's revenue in FY 2016

	For the year ended 31 December					
	2016		2015		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cutting tools						
Domestic	**201,970**	**38.3**	186,496	36.2	15,474	8.3
Export	**325,851**	**61.7**	328,361	63.8	(2,510)	(0.8)
	527,821	**100.0**	514,857	100.0	12,964	2.5

Cutting tools segment included HSS and carbide cutting tools. HSS cutting tools 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 two main types of HSS cutting tools manufactured by the Group are twist drill bills and screw taps. 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. The Group has also started the production of high end carbide tools since 2016, which mainly comprised of customised tools.

To cope with the competition in the domestic market of cutting tools, the Group modified the sales strategy in the cutting tools segment. By selling the cutting tools products at a more competitive price, the Group achieved an increase in the sales volume in the domestic market. The Group recorded a significant increase in domestic sales volume by around 20%. Compromised by the lower average selling price, overall domestic revenue increased by 8.3% to RMB201,970,000 (2015: RMB186,496,000).

The business environment in the overseas markets of cutting tools remained relatively stable. Accordingly, the Group's export revenue decreased slightly by 0.8% to RMB325,851,000 (2015:RMB328,361,000).

Titanium alloy – accounted for 6.9% of the Group's revenue in FY 2016

	For the year ended 31 December					
	2016		2015		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Titanium alloy						
Domestic	**233,830**	**99.8**	173,361	100.0	60,469	34.9
Export	**465**	**0.2**	–	–	465	–
	234,295	**100.0**	173,361	100.0	60,934	35.1

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. The production of titanium and titanium alloy is both capital and technology intensive. Thus, it is an industry with high entry barrier.

Revenue of the titanium alloy segment continued to grow at over 30% annually in the 4 years since its introduction by the Group in 2012. During the year, titanium alloy revenue recorded a significant increase of 35.1% to RMB234,295,000 (2015: RMB173,361,000). The average selling price of titanium products remained stable during the year. The increase in revenue was mainly attributable to the increase in the sales volume. As more distribution channels were created during the past 4 years, the Group gradually built up a reliable sales force and a large distribution network for its titanium products.

Titanium alloy segment recorded the first export sales during the year. Although the export revenue was not significant, it was an achievement of the Group in developing overseas markets of titanium alloy segment.

Trading of goods

This segment involves the purchase and sales of normal carbon steel products which were not within the Group's production capacity. Due to its slim profitability, the Group will place less focus in this segment in the future.

Financial Review

Net profit attributable to equity shareholders of the Company increased by 52.3% from RMB72,623,000 in 2015 to RMB110,571,000 in 2016. The increase was mainly attributable to (i) the contribution from the Group's DS and titanium alloy segments, which offset the recession in HSS market; (ii) the government grants received from the PRC government in rewarding the Group's contribution to local economy and encouraging the Group's innovation of technology; (iii) recovery of previously impaired trade receivables; and (iv) reduction in finance cost as a result of the Group's effort in reducing its gearing.

Revenue

Revenue for the Group for 2016 totalled RMB3,376,134,000, representing a decrease of 1.6% as compared with RMB3,429,397,000 in 2015. However, the Group recorded an increase of 1.5% in revenue generated by its core businesses other than trading of goods. Among the Group's four core businesses, the DS and titanium segments were benefited from the recovery in demand from domestic high-end equipment manufacturing industry. Cutting tools segment's performance remained stable across 2015 and 2016. The positive influences on revenue from these three segments was partially offset by the recession in HSS market, resulting in the net increase of 1.5% in revenue.

Cost of sales

The Group's cost of sales was RMB3,003,942,000 in 2016, representing a decrease of 1.1% as compared with RMB3,038,061,000 in 2015 as a result of reduction of sales. As a percentage of total revenue, the Group's cost of sales increased to 89.0% during the year (2015: 88.6%). The increase was mainly due to the compromise of the margin by downward price adjustments in order to maintain the Group's competitiveness in the stagnant markets.

Gross margin

For 2016, the overall gross margin was approximately 11.0% (2015: 11.4%). Set out below is the gross margin of our five products segments in 2016 and 2015:

	2016	2015
DS	**15.7%**	15.2%
HSS	**18.6%**	19.4%
Cutting tools (formerly categorised as HSS cutting tools)	**12.2%**	15.4%
Titanium alloy	**14.6%**	13.6%
Trading of goods	**0.2%**	0.2%

DS

The gross margin of DS increased from 15.2% in 2015 to 15.7% in 2016. The increase was mainly due to the recovery in demand in domestic markets.

HSS

The gross margin of HSS decreased from 19.4% in 2015 to 18.6% in 2016. The decrease was due to the downward adjustment of selling price under the price pressure caused by the recession of global HSS market.

Cutting tools (formerly categorised as HSS cutting tools)

The gross margin of cutting tools decreased from 15.4% in 2015 to 12.2% in 2016. In view of the severe competition in cutting tools market, the Group modified its sales strategy by offering products at a more competitive price. Thus, the gross margin of cutting tools were affected. On the other hand, by adopting this strategy, the Group achieved increased sales volume.

Titanium alloy

The gross margin of titanium alloy increased from 13.6% in 2015 to 14.6% in 2016. The increase was attributable to higher utilisation of production capacity so that fixed costs were shared to more units of goods resulting in a decrease in the per-unit product costs.

Trading of goods

The gross margin of this segment remained stable at 0.2% (2015: 0.2%).

Other income

Other income increased from RMB19,324,000 in 2015 to RMB76,299,000 in 2016. The increase was mainly due to (i) the increased PRC local government grants for the Group's contribution to local economy and the technology innovation from RMB6,808,000 in 2015 to RMB36,013,000 in 2016; and (ii) the reversal of impairment loss on trade receivable of RMB39,308,000 in 2016.

Distribution expenses

Distribution expenses in 2016 were RMB66,264,000 (2015: RMB67,855,000), representing a decrease of approximately 2.3%. The decrease was mainly attributable to the decrease in export sales volume and the implementation of the cost reduction policy in reducing marketing and advertising expenditure. For 2016, the distribution expenses as a percentage of revenue was 2.0% (2015: 2.0%).

Administrative expenses

Administrative expenses increased from RMB115,404,000 in 2015 to RMB142,918,000 in 2016. The increase was mainly due to the increase in labour related costs during the year. More staff incentive was provided to raise the morale of the work force to achieve a better performance of the Group. For 2016, administrative expenses as a percentage of revenue was 4.2% (2015: 3.4%).

Other operating expenses

Other operating expenses decreased from RMB14,154,000 in 2015 to RMB12,294,000 in 2016. Other operating expenses in 2016 was mainly resulted from the foreign exchange losses as RMB went weak against USD and EUR throughout the year. Other operating expense in 2015 was mainly the result of recognition of impairment loss on receivables. No significant impairment loss was identified in 2016.

Net finance costs

The Group's finance income was RMB9,398,000 in 2016, representing an increase of RMB877,000 primarily due to the increase of average bank deposit balance. The Group's finance expense was RMB112,697,000 in 2016, representing a decrease of 24.5% from RMB149,240,000 in 2015. The decrease was resulted from reduction of debts according to the Group's low gearing ratio policy implemented during the year.

Income tax

As set out in Note 8 of the consolidated statement of profit or loss above, the Group's income tax increased by 14.1% from RMB13,074,000 in 2015 to RMB14,920,000 in 2016, mainly because of increase of the Group's profit before taxation for the year.

Profit for the year attributable to equity shareholders of the Company

As a result of the factors discussed above, the Group's profit increased by approximately 52.3% from RMB72,623,000 in 2015 to RMB110,571,000 in 2016. The net profit margin increased from 2.1% in 2015 to 3.3% in 2016.

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

For 2016, total comprehensive income for the year attributable to equity shareholders of the Company was RMB156,284,000 (2015: RMB44,836,000) after taking into account of foreign currency translation differences and the fair value adjustment on available-for-sales securities.

During the year, the Group debited a foreign currency translation difference of RMB27,642,000 (2015: RMB27,787,000) related to translation of financial statements of Hong Kong subsidiaries and overseas equity accounted investees.

The Group also recognised a fair value gain of RMB73,355,000 (2015: Nil) on its available-for-sales securities investment.

Other financial assets

The Group has invested in shares in Bank of Jiangsu. Previously, there was no quoted market price in active market for shares in Bank of Jiangsu before it was listed on Shanghai Stock Exchange on 2 August 2016. After the listing of Bank of Jiangsu, the Group's other financial assets comprising 10,000,000 shares in Bank of Jiangsu was revalued at RMB96,300,000 according to its fair value of RMB9.63 per share as at 31 December 2016. The fair value gain, net of tax, of RMB73,355,000 was recorded in other comprehensive income during the year.

Trade and bills receivables

The trade and bills receivables decreased from RMB1,670,158,000 in 2015 to RMB1,367,982,000 in 2016 which was mainly due to the better control on the credit given to the customers in 2016 as compared with 2015. Debts collection efficiency and effectiveness was also enhanced in 2016. Approximately 82% of the trade and bills receivables were neither past due nor impaired. During the year, the impairment losses was decreased by RMB39,308,000 as previously impaired debts were subsequently collected during the year.

The significant amount of previously impaired debts recovered was mainly related to a customer, whose sales and production condition deteriorated since 2014, and therefore, was unable to settle our invoices timely. To control the risks of bad debts against the customer, the Group applied a special credit control arrangement under which subsequent sales to this customer were not allowed until remittance was received. After receipt of remittance, sales were then allowed subject to a limitation up to a certain percentage of remittance received. During the year, the Group assisted the customer to resell the previously supplied goods by sourcing other customers. The collected proceeds of the resales were used to repay the previously impaired debts.

Outlook

During the year, the business environment of the Group's four major segments changed. While DS and titanium alloy segments recorded a growth caused by the recovery in demand from domestic high-end equipment manufacturing industry, HSS encountered a recession during the year. For cutting tools (formerly categorised as HSS cutting tools), the result was driven by the Group's competitive pricing policy with the intention to increase the sales volume and remove inventory of outdated design.

In the Group perspective, 2016 was a year for breakthrough and internal refinement. The Group implemented various policies to enhance its operating and financial positions, including automation of production line, lowering of financial gearing, higher efficiency on debt collection, and improved control on credit to customers.

The Group achieved a few innovation breakthroughs, including mastering of the production of bimetallic saw blade steel, the previous supply of which was purely relying on import. The advance was a promising step to the Group for capturing the domestic market of this high-end product. We achieved a 25% improvement in the capacity utilisation by refining the process and parameter in the smelting process without additional investment.

On the distribution network development, the Group's global footprint has extended to Canada with a new associate setup during the year. For the domestic side, as announced by the Company on 20 December 2016, the Group enriched the means of distribution by investing in a DS e-commerce platform which served southern China area by providing one-stop online ordering, customisation and warehousing solution.

After nearly eight months of investigation by the European Commission, the Group obtained a favourable decision in the anti-dumping and anti-subsidy cases against the China industry of flat-rolled products of iron, non-alloy steel or other alloy steel. Under the decision, tool steel and high-speed steel produced by TG Tools would be excluded from the scope of investigation, and therefore, not subject to the protective measures imposed by the European Commission.

Looking forward to 2017, following the successful removal of excess capacity in the PRC steel industry in 2016, China's national supply side reform will be continued with a greater focus on removing low-end steel manufacturers by means of operational and environmental standardisation. The new focus of the reform is to protect the advanced production capacity by removing obsolete production capacity. To synchronise with the national policy, the Group established a new research centre focusing on research and development of high-end products. The new research centre will be put into full operation in 2017. In addition, the Group will cooperate with major special steel research institutions on the new product and technology development.

The Group already acquired the pricing power in domestic DS market through China's national supply side reform in 2016. We hope to improve our pricing power in the HSS market by positioning at high-end manufacturing.

For the overseas markets, the Group sought to improve the profit margin by increasing the direct exposure and connection with end customers. It was believed that both the Group and the end customers could be benefited from a more streamlined distribution mechanism.

Revenue of the titanium alloy segment continued to grow at over 30% annually in the 4 years since its introduction by the Group. The prime focus of the segment would be the development of new products and their application. Effort would be put on steel-titanium composite plate development and its application in ocean-related industry, with our strategic partner, Nanjing Iron & Steel Co., Ltd. ("Nanjing Steel").

During the year, TG Tech, a non-wholly owned subsidiary of the Group, entered into a subscription agreement with Nanjing Steel for a subscription of 40 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to approximately RMB49.6 million (the "First Placing"). After the completion of the First Placing, the equity interests held by the Company in TG Tech was diluted by approximately 11.76% from 100% to approximately 88.24% of the enlarged share capital of TG Tech. The proceeds from the First Placing has been used for procurement of material and utility expenses and the replenishment of its working capital, which enabled TG Tech to (i) increase its production capacity; (ii) strengthen its current research and development level; and (iii) increase its financial strength. For further details, please refer to the announcements of the Company dated 7 March 2016, 24 March 2016, 27 April 2016 and 25 August 2016.

Further, on 6 June 2016, TG Tech entered into another subscription agreement with Nanjing Steel, certain directors and core management of TG Tech for a subscription of total of 65 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to approximately RMB80.6 million (the "Second Placing"). Subsequently on 11 July 2016, the Second Placing and the subscription agreement were resolved and approved in the extraordinary general meeting of the Company. The Second Placing was completed on 7 November 2016, the equity interests held by the Company in TG Tech was further diluted to approximately 74.07% of the enlarged share capital of TG Tech. TG Tech remains as a subsidiary of the Group after the completion of the Second Placing. For further details, please refer to the announcements of the Company dated 6 June 2016, 11 July 2016 and 25 August 2016 and the circular of the Company dated 23 June 2016.

The proceeds from the Second Placing has been used as intended:

Intended use of proceeds from the Second Placing	Actual use of proceeds (as at 31 December 2016)	Proposed use of the remaining unutilized proceeds (as at 31 December 2016)
(i) Research and development for new materials of high-quality, high-end titanium alloy, including but not limited to titanium wire for 3D printing and a co-developing project with Nanjing Steel on the development of a new composite material by the combination of titanium and steel	(a) RMB15.0 million was used in research and development of titanium wire for 3D printing (b) RMB9.6 million was used in research and development of production process of high quality titanium alloy round plate (c) RMB4.8 million was used in research and development of a new composite material by the combination of titanium and steel	The Group plans to fully utilise the balance of RMB0.6 million for the research and development projects
(ii) Integration with upstream and downstream products suppliers/contractors/customers by way of alliance or investment	RMB25.7 million was used for market development on upstream and downstream counterparties within the supply chain	The Group plans to fully utilise the balance of RMB14.3 million for the upstream and downstream integration within the supply chain
(iii) Replenishment of TG Tech's working capital to procure raw materials and meet any cashflow requirements that may arise from the daily operations of TG Tech	RMB7.4 million was used as working capital and for daily operation, of TG Tech including payment of electricity, staff salaries and procurement of raw materials	The Group plans to fully utilise the balance of RMB3.2 million as the working capital of TG Tech to meet the needs arising from its daily operations

On 20 December 2016, TG Aihe, a wholly owned subsidiary of the Company, entered into an investment agreement with three other partners for the formation of a corporation, Shenzhen 51 Mocai Technology Company Limited ("Shenzhen 51 Mocai"), with a registered capital of RMB50 million. According to the agreement, TG Aihe contributed RMB5,000,000, representing 10% of the total registered capital of Shenzhen 51 Mocai. Shenzhen 51 Mocai was established on 20 December 2016. The principal business of Shenzhen 51 Mocai are computer technology development and technical services; the e-commerce of moulding materials; development of moulding software; development, production and

sales of smart device; research and development, production, sales and import and export of moulding materials, special function materials, energy-storage materials, fine alloy, corrosion-resistant alloys, high-temperature alloys and moulding accessories and mould peripheral equipment; supply chain management and related supporting services; warehousing services; leasing of self-owned properties, property management services and inventory loading and unloading services and transport services. Shenzhen Xinyuan Steel Material Company Limited subsequently transferred the die steel e-commerce platform (www.51mocai.com) to Shenzhen 51 Mocai on 13 February 2017.

The e-commerce platform was intended to provide online DS customisation, centralised warehousing and one-stop online ordering for DS and moulding by integrating the production information of upstream DS manufacturers, capacity of deep processing subcontractors, demand from end consumers and regional inventory level.

Further, the e-commerce platform would allow the Group to follow the state advocated "Internet +" macro policy, focusing on transformation of the traditional distribution channel of DS by using internet technology.

The Group intended to initiate its integration of downstream operation by investing in Shenzhen 51 Mocai. The Group expected to benefit from the industrial Big Data acquired from the e-commerce platform to facilitate the analysis of the demand from the end consumers. The Group would then be able to refine the production and product mix according to the result from the analysis. Further, the analysis could provide a new direction to the Group on the strategy and development of its new products.

In addition, the Group considered the investment in Shenzhen 51 Mocai to be an effective way to expand its distribution network to the South China region.

Finally, we re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance is always 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 2016, the Group's current assets mainly included cash and cash equivalents of approximately RMB259,546,000, inventories of approximately RMB1,901,775,000, trade and other receivables of RMB1,577,383,000, pledged deposits of RMB180,180,000 and time deposits of RMB640,000,000. As at 31 December 2016, the interest-bearing borrowings of the Group were RMB2,888,912,000 (2015: RMB3,066,874,000), RMB2,678,912,000 of which were repayable within one year and RMB210,000,000 of which were repayable after more than one year. The Group's adjusted net debt-to-equity ratio, which is calculated based on adjusted net debt (defined as total interest-bearing borrowings plus unaccrued proposed dividends, less cash and cash equivalents) divided by adjusted capital (comprising all components of equity, less unaccrued proposed dividends) as at 31 December 2016, was 64.1% (2015: 71.4%).

The decrease in borrowings was mainly attributable to the repayment of bank loans and the Group's policy to reduce its gearing. As at 31 December 2016, borrowings of RMB2,033,050,000 were in RMB, USD89,215,588 were in USD and EUR34,752,464 were in EUR. The borrowings of the Group were subject to interests payable at rates ranging from 0.70% to 5.75% per annum. There is no seasonality of borrowing requirements of the Group. The Group did not enter into any financial instruments to hedge itself against the risks associated with interest rates and foreign currency exchange fluctuations.

During the year, the net cash generated from operating activities was RMB494,768,000 (2015: RMB632,532,000).

Cash Conversion Cycle

The cash conversion cycle, calculated as turnover days over inventory, plus turnover days over trade receivables, minus turnover days of trade payables, attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers. It is important to manufacturers because it measures the efficiency of their capital chain management.

The Group's turnover days of inventory for 2016 was 230 days (2015: 231 days). The long turnover days of inventory is common in special steel industry due to its complex production process. The Group's turnover days of trade receivables for 2016 was 164 days (2015: 195 days). The improved turnover days of trade receivables was mainly due to the strengthened credit control and debts collection policy implemented by the Group during the year. The Group's turnover days of trade payables for 2016 was 131 days (2015: 143 days). The shortened turnover days of trade payables was due to more timely payment to the suppliers as a result of accelerated debts collection.

Accordingly, the Group's cash conversion cycle for 2016 was 263 days (2015: 283 days). The improved cash conversion cycle was mainly due to the more effective and efficient control over the trade receivables. Please note that the calculation of the aforesaid indexes may not be consistent with those measurement indexes published by other issuers.

Capital Expenditure and Capital Commitments

For 2016, the Group's net increase in fixed assets amounted to RMB200,622,000, which were mainly for the production plant for thin steel plate project and research centre for HSS, DS and titanium alloy and were financed by a combination of our internal cash resources, operating cash flows and bank borrowings. As at 31 December 2016, capital commitments were RMB209,198,000 (2015: RMB467,945,000), of which RMB56,921,000 were contracted and RMB152,277,000 were authorised but not contracted for. The majority of the capital commitments were related to investment in melting facility and production line of HSS and DS sheet and would be funded by internal resources and operating cash flows of the Group.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, USD and EUR, with RMB accounting for the largest portion (approximately 67.9%). Approximately 32.1% 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 2016, the Group pledged certain bank deposits amounting to approximately RMB180,180,000 (2015: RMB445,389,000), certain trade receivables amounting to approximately RMB147,748,000 (2015: RMB91,509,000) and other financial assets amounting to approximately RMB96,300,000 (2015: Nil).

Employees' Remuneration and Training

As at 31 December 2016, the Group employed around 3,423 employees (2015: around 3,270 employees). Total staff costs during the year amounted to RMB235,618,000 (2015: RMB189,240,000). 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

Neither the Group, nor the Company, had any significant contingent liabilities at the end of the reporting period.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2017 to 26 May 2017 (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 26 May 2017, 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 22 May 2017.

The Board has resolved to recommend the payment of a final dividend of RMB0.0100 per share for the year ended 31 December 2016 (2015: RMB0.0065) to shareholders of the Company whose names appear on the register of members of the Company on 7 June 2017. The register of members will be closed from 2 June 2017 to 7 June 2017, both days inclusive, and the proposed final dividend is expected to be paid on or before 21 July 2017. 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 26 May 2017. 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 1 June 2017.

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "Scheme") on 7 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 Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275 per share. All the remaining share options for 3,080,000 shares lapsed on 1 July 2016.

On 17 January 2014, options entitled holders to subscribe for a total of 9,057,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. Among the total 9,057,000 shares options, 55,000 shares options were not vested and the remaining 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. All the remaining share options for 9,002,000 shares lapsed on 1 June 2016.

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.

On 22 July 2016, options entitled holders to subscribe for a total of 18,970,000 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 will be vested on 1 January 2017 and have an initial exercise price of HKD0.60 per share of USD0.0025 each and an exercise period ranging from 1 January 2017 to 31 December 2017. The closing price of the Company's shares at the date of grant was HKD0.56 per share of USD0.0025 each.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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 2016, 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, Mr. Yin Shuming was unable to attend the annual general meeting of the Company held on 18 May 2016 due to health reasons. Mr. Yin Shuming subsequently resigned on 3 September 2016 due to his old age of 71 and intention to spend more time with his family.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 27 March 2017 to consider and review the 2016 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 2016 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 2016.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2016 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 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, 28 March 2017

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, WANG Xue Song

* *For identification purpose*