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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)

Jiangsu Tiangong Technology Company Limited

Annual Report 2016 Highlight

1. Important Note

1.1 This highlight is extracted from the Annual Report 2016 (the “Annual Report”) of Jiangsu Tiangong Technology Company Limited (“TG Tech”), a 74.03% owned subsidiary of Tiangong International Company Limited (the “Company”), published on the date of this announcement. The shares of TG Tech are quoted on the National Equities Exchange and Quotations System. Investors should read the full Annual Report simultaneously available on the information disclosure platform (www.neeq.com.cn or www.neeq.cc) designated by National Equities Exchange and Quotations Co., Ltd. for further detailed content.

1.2 No directors, supervisors and senior executives of TG Tech are unable to warrant or have objection to the authenticity, accuracy and completeness of the contents of the Annual Report.

1.3 All the directors of TG Tech attended the board meeting to approve the Annual Report.

1.4 KPMG Huazhen LLP audited TG Tech's financial statements for the year ended 31 December 2016 and issued a standard unqualified audited report.

1.5 TG Tech contact information:

Secretary of Director (Information Disclosure Officer): Xu Shaoqi

Phone: 0511-80767215

Email: xushaoqi@tggj.cn

Office Address: Tiangong Group, Houxiang, Danbei Town, Danyang City, Jiangsu Province, China

2. Key Financial Information and Changes in Shareholders

2.1 Key Financial Information

Unit: RMB

	31 December 2016	31 December 2015	Variance between 31 December 2015 and 31 December 2016
Total Assets	598,033,644.83	450,427,911.00	32.77%
Total Liabilities	67,731,427.77	78,421,160.01	-13.63%
Net assets attributable to the equity holders of the company	530,302,217.06	372,006,750.99	42.55%
Revenue from operations	257,847,506.04	198,182,449.20	30.11%
Profit from operations	28,375,577.85	18,484,512.19	53.51%
Total profit	33,651,696.58	18,351,973.55	83.37%
Earnings before interest and tax	33,480,426.97	18,216,967.98	83.79%
Net profit attributable to the equity holders of the company	28,597,750.27	15,598,843.57	83.33%
Net profit attributable to the equity holders of the company after deduction of non-recurring profit and loss	24,113,049.35	15,711,501.41	53.47%
Net cash flows from operating activities	-37,663,584.54	51,855,835.35	-
Weighted average return on net assets	4.67%	4.28%	-
Basic earnings per share (RMB/share)	0.085	0.052	63.46%
Diluted earnings per share (RMB/share)	0.085	0.052	63.46%
Net assets per share attributable to equity holders of the company (RMB/share)	1.31	1.24	5.59%
Owner's equity attributable to the shareholders of the company	530,302,217.06	372,006,750.99	42.55%
Share capital (shares)	405,000,000.00	300,000,000.00	35.00%

2.2 Shareholding Structure

Unit: Share

Nature of shareholding		At the beginning of the year		At the end of the year	
		Total number of shares held	Holding percentage	Total number of shares held	Holding percentage
Number of shares not subject to selling restriction	1. Controlling Shareholder, de facto controller	-	-	102,300,000.00	25.26%
	2. Directors, Supervisors and Senior Management	-	-	6,750,000.00	1.67%
	3. Key Staff	-	-	3,000,000.00	0.74%
	4. Others	-	-	75,200,000	18.57%
	Total number of shares not subject to selling restriction	-	-	184,750,000.00	45.62%
Number of shares subject to selling restriction	1. Controlling Shareholder, de facto controller	300,000,000.00	100.00%	207,500,000.00	51.23%
	2. Directors, Supervisors and Senior Management	-	-	20,250,000.00	5.00%
	3. Key Staff	-	-	-	-
	4. Others	-	-	-	-
	Total number of shares subject to selling restriction	300,000,000.00	100.00%	220,250,000.00	54.38%
Total number of shares		300,000,000.00		405,000,000.00	

2.3 Information of top ten holders of the listed shares

Unit: Share

No.	Name of Shareholder	Nature of shareholder	Shareholding at the beginning of the year	Changes during the year	Shareholding at the end of the year	Holding Percentage at the end of the year	Number of shares subject to selling restriction	Number of shares not subject to selling restriction
1	Jiangsu Tiangong Tools Company Limited (“TG Tools”)	Domestic non State-owned legal person	270,000,000.00	-	270,000,000.00	66.67%	180,000,000.00	90,000,000.00
2	Nanjing Iron & Steel Co., Ltd.	Domestic non State-owned legal person	-	72,697,000.00	72,697,000.00	17.95%	-	72,697,000.00
3	Danyang Tianfa Forging Company Limited (“Tianfa Forging”)	Domestic non State-owned legal person	30,000,000.00	-200,000.00	29,800,000.00	7.36%	20,000,000.00	9,800,000.00
4	Zhu Xiaokun	Domestic natural person	-	10,000,000.00	10,000,000.00	2.47%	7,500,000.00	2,500,000.00
5	Jiang Rongjun	Domestic natural person	-	5,000,000.00	5,000,000.00	1.23%	3,750,000.00	1,250,000.00
6	Chen Jie	Domestic natural person	-	3,000,000.00	3,000,000.00	0.74%	2,250,000.00	750,000.00
7	Yang Zhao	Domestic natural person	-	3,000,000.00	3,000,000.00	0.74%	2,250,000.00	750,000.00
8	Xu Shaoqi	Domestic natural person	-	3,000,000.00	3,000,000.00	0.74%	2,250,000.00	750,000.00
9	Wang Gang	Domestic natural person	-	3,000,000.00	3,000,000.00	0.74%	2,250,000.00	750,000.00
10	Zhu Linfei	Domestic natural person	-	3,000,000.00	3,000,000.00	0.74%	-	3,000,000.00
Total			300,000,000.00	102,497,000.00	402,497,000.00	99.38%	220,250,000.00	182,247,000.00

2.4 The ownership and control relationship among TG Tech, the controlling shareholder and the de facto controller

(1) The controlling shareholder and the de facto controllers of TG Tech

1. The controlling shareholder of TG Tech

As at the end of the reporting period, TG Tools held 270,000,000 shares of TG Tech, accounting for 66.67% of TG Tech's total share capital, and was the controlling shareholder of TG Tech. During the reporting period, the controlling shareholder of TG Tech did not change. The basic information of the controlling shareholder of TG Tech is as follows:

TG Tools was established on July 7, 1997 in Qianxiang Village, Hou Xiang, Danbei Town, Danyang City, with the organisation code of 91321181134795523R, and registered capital of RMB1.81 billion. Mr. Zhu Xiaokun is the legal representative of TG Tools. The scope of its business included manufacturing of tools, cutting tools, measuring tools, indoor and outdoor television antenna (except ground satellite receiving facilities), development, production and sales of construction hardware and hardware, tool steel smelting and sales, import and export business (except for goods and technology that is limited by or prohibited by the State from import and export).

During the reporting period, there was no change in the controlling shareholder and de facto controllers of TG Tech.

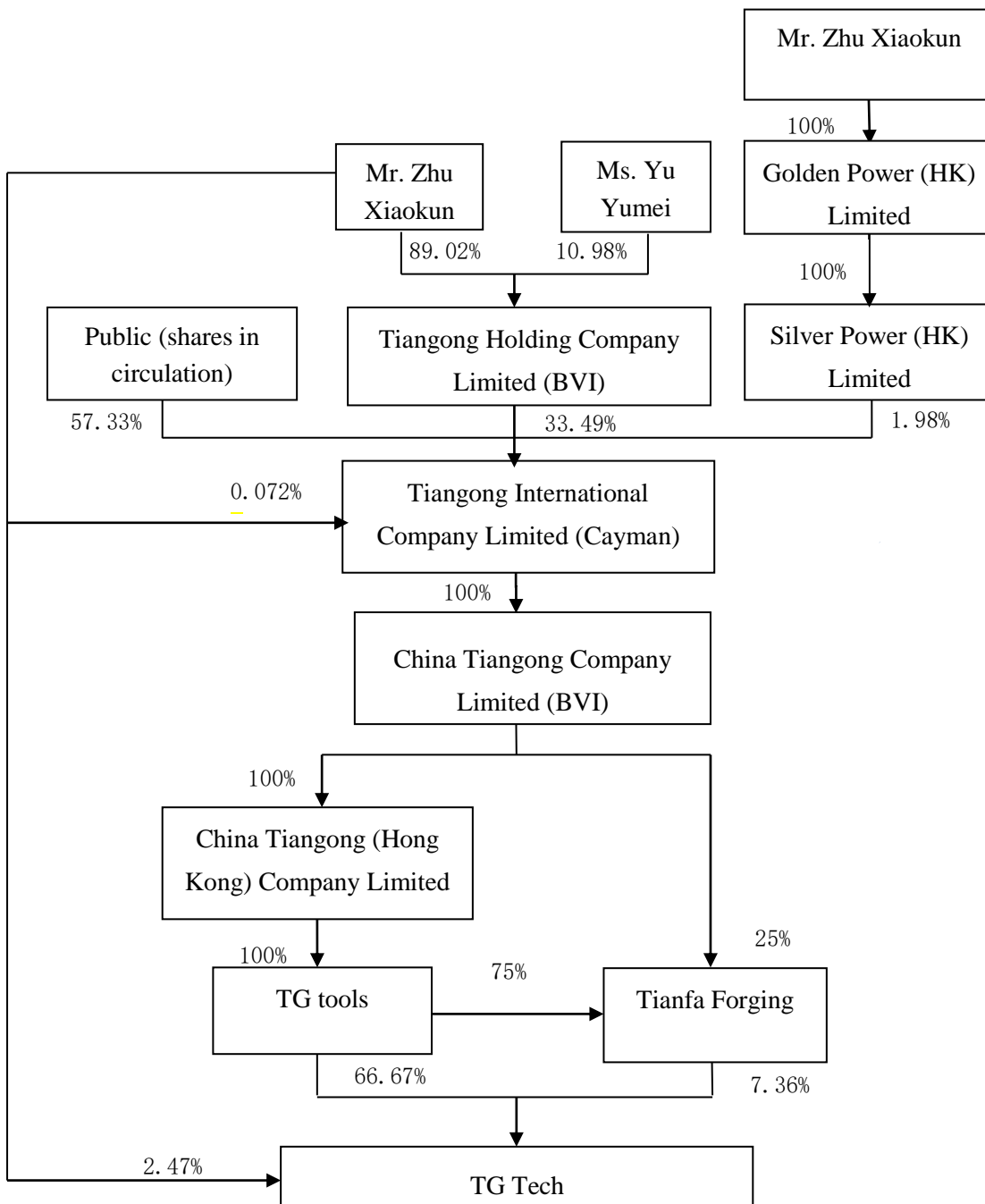
2. The de factor controllers of TG Tech

Mr. Zhu Xiaokun and Ms. Yu Yumei indirectly held 106.54 million shares of TG Tech through Tiangong Holdings Company Limited and Silver Power (HK) Limited, and Mr. Zhu Xiaokun directly held 10 million shares of TG Tech, collectively representing 28.78% of TG Tech total share capital. Since the establishment of TG Tech, Mr. Zhu Xiaokun served as the Chairman of TG Tech, responsible for its decision making. Mr. Zhu Xiaokun and Ms. Yu Yumei are the joint de facto controllers of TG Tech. They are in a spousal relationship. During the reporting period, there was no change in de factor controllers of TG Tech.

Mr. Zhu Xiaokun, was born in January 1957, with Chinese nationality. He has no permanent overseas residence. He has a college degree. He worked as the Chairman and the general manager of Jiangsu Tiangong Group Co., Ltd. since October 1984. He worked as the Chairman and the general manager of TG Tools since July 1997. Since August 2006, he is the Chairman of the Company. Since January 2010, he is the Chairman of TG Tech.

Ms. Yu Yumei, was born in January 1961, with Chinese nationality. She has no permanent overseas residence. She has a college degree. She worked as a teacher at Hou Xiang Center School, Danbei Town, Danyang City during September 1991 to June 2011. She was then retired since June 2011.

(2) The ownership and control relationship diagram among TG Tech, the controlling shareholder and the de facto controllers



Note: Ms. Yu Yumei is the wife of Mr. Zhu Xiaokun, the Chairman of TG Tech. The above data was as of 31 December 2016.

3. Management Discussion and Analysis

(1) Operating Results of 2016

In 2016, TG Tech recorded operating revenue of RMB257,847,506.04, representing a year-on-year increase of 30.11%. Total profit and net profit for the year were RMB33,651,696.58 and RMB28,597,750.27, respectively, representing a year-on-year increase of 83.37% and 83.33%, respectively. The growth was mainly due to the continuous improvement and maturity of the production process. With a stable average market price, TG Tech strengthened the cooperation with the existing customers as well as entered into business with new customers. Accordingly, sales volume achieved a substantial increase. As of 31 December 2016, TG Tech's total assets was RMB598,033,644.83 and the net assets was RMB530,302,217.06.

(2) Business plan and major objectives of 2017

TG Tech's business objective is to gradually transform its engagement from the upstream non-ferrous metal materials processing to the downstream production of metal composite materials and related end-product applications.

The following is the specific focused areas:

1. Actively introducing strategic investors to facilitate TG Tech's normal participation in the capital market: In accordance with the financing strategy, TG Tech will properly use and arrange funds obtained from financing and standardise its operations in order to achieve the desired objective.

2. Seeking upstream and downstream mergers and acquisitions opportunities to extend the titanium product chain: TG Tech will timely stabilise the supply channels of resources, reduce risk on material cost and supply, enhance TG Tech's core competitiveness; focus on key areas to accelerate the new breakthrough in new titanium alloy material industry. TG Tech will continue to promote the efficient research and development of new titanium alloy materials, green manufacturing to expand market shares.

3. Further improving operational efficiency and quality: Firstly, TG Tech will continue to optimise the production process, and continuously improve the successful rate of the manufacturing process; refine its operations management to strive for improvement in labor productivity. Secondly, TG Tech will continue to strengthen the management in procurement of raw materials, low-value consumables and budget control on various expenditure. Thirdly, TG Tech will start to work on the supply chain management to speed up inventory, accounts receivable turnover rate, and seek for improvement in the production quality and efficiency.

4. Attracting high-end talents and introducing new technologies: Through strengthening the learning and training mechanism, TG Tech will seek breakthrough from the traditional concept. TG Tech will focus on its strategic needs, emphasis the introduction of high-end and quality personnel.

5. Adhering to technological innovation and promoting research and development work for TG Tech's future extension of the industrial chain and technical upgrade.

The above business plan and major objectives do not constitute a commitment to the investors on the performance of TG Tech. Investors should maintain adequate risk awareness.

4. Events related to financial reporting

4.1 Changes to accounting policies, accounting estimates and accounting methods compared to the previous annual financial report

Applicable Not Applicable

4.2 Description of the major accounting errors with requiring restatement in the reporting period

Applicable Not Applicable

4.3 Description of the change in the scope of the consolidated statement compared to the previous annual financial report

Applicable Not Applicable

4.4 The board of directors' explanations to the non-standard audited financial report issued by the Auditor

Applicable Not Applicable

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

Hong Kong, 18 April 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 and WANG Xuesong

* For identification purpose