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

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 826)**

## ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

### FINANCIAL HIGHLIGHTS

*RMB'million (unless otherwise specified)*

| | **Six months ended 30 June 2017 (unaudited)** | Six months ended 30 June 2016 (unaudited) | **Change** |
|---|---|---|---|
| Revenue | **1,877.0** | 1,568.2 | 19.7% |
| Gross profit | **214.1** | 186.9 | 14.5% |
| Profit attributable to equity shareholders of the Company | **39.3** | 25.7 | 52.8% |
| Basic earnings per share *(RMB)* | **0.018** | 0.012 | 50.0% |
| Diluted earnings per share *(RMB)* | **0.018** | 0.012 | 50.0% |
| Gross profit margin | **11.4%** | 11.9% | (0.5 ppt) |
| Net profit margin | **2.2%** | 1.7% | 0.5 ppt |

| | **At 30 June 2017 (unaudited)** | At 31 December 2016 (audited) | **Change** |
|---|---|---|---|
| Net Assets | **4,180.1** | 4,155.4 | 0.6% |
| Net Debt(1) | **2,044.6** | 1,809.2 | 13.0% |
| Net Gearing(2) | **48.9%** | 43.5% | 5.4 ppt |

*Notes:*

(1) Net debt equals 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 (the "Board") of directors (the "Directors") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 and the consolidated statement of financial position of the Group as at 30 June 2017 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee"), together with the comparative figures for the same period of 2016 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2017 (unaudited)*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2017** | 2016 |
| | | **(unaudited)** | (unaudited) |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | *4* | **1,877,005** | 1,568,234 |
| Cost of sales | | **(1,662,936)** | (1,381,307) |
| **Gross profit** | | **214,069** | 186,927 |
| Other income | *5* | **6,308** | 7,325 |
| Distribution expenses | | **(42,255)** | (28,829) |
| Administrative expenses | | **(63,429)** | (67,363) |
| Other expenses | *6* | **(9,805)** | (16,424) |
| **Profit from operations** | | **104,888** | 81,636 |
| Finance income | | **2,664** | 5,533 |
| Finance expenses | | **(59,102)** | (59,807) |
| **Net finance costs** | *7(a)* | **(56,438)** | (54,274) |
| Share of (losses)/profits of associates | | **(1,628)** | 3,513 |
| Share of (losses)/profits of joint ventures | | **(720)** | 2,361 |
| **Profit before income tax** | *7* | **46,102** | 33,236 |
| Income tax | *8* | **(5,197)** | (6,372) |
| **Profit for the period** | | **40,905** | 26,864 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **39,290** | 25,713 |
| Non-controlling interests | | **1,615** | 1,151 |
| **Profit for the period** | | **40,905** | 26,864 |
| **Earnings per share** *(RMB)* | *9* | | |
| Basic | | **0.018** | 0.012 |
| Diluted | | **0.018** | 0.012 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2017 (unaudited)*

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **40,905** | 26,864 |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of: | | |
| – financial statements of Hong Kong subsidiaries and overseas equity-accounted investees (net of nil tax) | **8,860** | 72 |
| Available-for-sale securities: net movement in the fair value reserve (net of tax of RMB510,000) | **(2,890)** | – |
| Other comprehensive income for the period | **5,970** | 72 |
| **Total comprehensive income for the period** | **46,875** | 26,936 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **45,260** | 25,785 |
| Non-controlling interests | **1,615** | 1,151 |
| **Total comprehensive income for the period** | **46,875** | 26,936 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2017*

| | Note | At 30 June 2017 (unaudited) RMB'000 | At 31 December 2016 (audited) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,411,347** | 3,444,164 |
| Lease prepayments | | **71,749** | 72,624 |
| Goodwill | | **21,959** | 21,959 |
| Interest in associates | | **50,067** | 46,484 |
| Interest in joint ventures | | **25,216** | 25,343 |
| Other financial assets | | **92,900** | 96,300 |
| Deferred tax assets | | **34,065** | 30,146 |
| | | **3,707,303** | 3,737,020 |
| **Current assets** | | | |
| Trading securities | | **2,145** | – |
| Inventories | | **1,999,433** | 1,901,775 |
| Trade and other receivables | *10* | **1,834,798** | 1,577,383 |
| Pledged deposits | | **201,381** | 180,180 |
| Time deposits | | **449,506** | 640,000 |
| Cash and cash equivalents | | **294,745** | 259,546 |
| | | **4,782,008** | 4,558,884 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | | **2,573,364** | 2,678,912 |
| Trade and other payables | *11* | **1,215,459** | 1,145,129 |
| Current taxation | | **–** | 1,560 |
| Deferred income | | **6,080** | 5,840 |
| | | **3,794,903** | 3,831,441 |
| **Net current assets** | | **987,105** | 727,443 |
| **Total assets less current liabilities** | | **4,694,408** | 4,464,463 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | | **416,888** | 210,000 |
| Deferred income | | **40,363** | 43,876 |
| Deferred tax liabilities | | **57,048** | 55,153 |
| | | **514,299** | 309,029 |
| **Net assets** | | **4,180,109** | 4,155,434 |

| | At 30 June 2017 (unaudited) *RMB'000* | At 31 December 2016 (audited) *RMB'000* |
|---|---|---|
| **Capital and reserves** | | |
| Share capital | **40,167** | 40,167 |
| Reserves | **4,000,608** | 3,977,548 |
| **Total equity attributable to equity shareholders of the Company** | **4,040,775** | 4,017,715 |
| **Non-controlling interests** | **139,334** | 137,719 |
| **Total equity** | **4,180,109** | 4,155,434 |

## 1. REPORTING ENTITY

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 interim financial report of the Company as at and for the six months ended 30 June 2017 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

## 2. BASIS OF PREPARATION

This interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 15 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 audited financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included in the interim financial report.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements for the financial year ended 31 December 2016. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2016. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

## 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 development have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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, titanium alloy and trading of goods after eliminating intercompany transactions.

The Group has 5 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 materials that are used in the die set manufacturing industry.

– *HSS* — The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.

– *Cutting tools* — The cutting tools segment manufactures and sells HSS and carbide cutting tools for the tools 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 the Group's 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 assets, intangible assets and current assets with the exception of interests in associates, interests in joint ventures, other financial assets, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other head office and 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 borrowings, 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 period ended 30 June 2017 and 2016 is set out below.

| | **Six months ended 30 June 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **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 | **786,331** | **306,052** | **232,079** | **84,101** | **468,442** | **1,877,005** |
| Inter-segment revenue | **–** | **76,831** | **–** | **–** | **–** | **76,831** |
| **Reportable segment revenue** | **786,331** | **382,883** | **232,079** | **84,101** | **468,442** | **1,953,836** |
| **Reportable segment profit (adjusted EBIT)** | **89,778** | **46,104** | **26,240** | **9,020** | **672** | **171,814** |

| | **As at 30 June 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **DS** | **HSS** | **Cutting tools** | **Titanium alloy** | **Trading of goods** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Reportable segment assets** | **3,269,432** | **2,119,840** | **1,396,342** | **450,499** | **10** | **7,236,123** |
| **Reportable segment liabilities** | **632,891** | **370,936** | **191,689** | **40,538** | **–** | **1,236,054** |

| | Six months ended 30 June 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 | 534,209 | 206,838 | 237,519 | 98,416 | 491,252 | 1,568,234 |
| Inter-segment revenue | – | 76,174 | – | – | – | 76,174 |
| **Reportable segment revenue** | 534,209 | 283,012 | 237,519 | 98,416 | 491,252 | 1,644,408 |
| **Reportable segment profit (adjusted EBIT)** | 79,300 | 31,542 | 33,973 | 8,031 | 936 | 153,782 |

| | 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* |
| **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 |

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

| Revenue | Six months ended 30 June 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Reportable segment revenue | **1,953,836** | 1,644,408 |
| Elimination of inter-segment revenue | **(76,831)** | (76,174) |
| Consolidated revenue | **1,877,005** | 1,568,234 |

| Profit | Six months ended 30 June 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Reportable segment profit | **171,814** | 153,782 |
| Net finance costs | **(56,438)** | (54,274) |
| Share of (losses)/profits of associates | **(1,628)** | 3,513 |
| Share of (losses)/profits of joint ventures | **(720)** | 2,361 |
| Other unallocated head office and corporate expenses | **(66,926)** | (72,146) |
| Consolidated profit before income tax | **46,102** | 33,236 |

| Assets | At 30 June 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|
| Reportable segment assets | **7,236,123** | 6,941,983 |
| Trading securities | **2,145** | – |
| Interest in associates | **50,067** | 46,484 |
| Interest in joint ventures | **25,216** | 25,343 |
| Other financial assets | **92,900** | 96,300 |
| Deferred tax assets | **34,065** | 30,146 |
| Pledged deposits | **201,381** | 180,180 |
| Time deposits | **449,506** | 640,000 |
| Cash and cash equivalents | **294,745** | 259,546 |
| Current taxation | **3,061** | – |
| Other unallocated head office and corporate assets | **100,102** | 75,922 |
| Consolidated total assets | **8,489,311** | 8,295,904 |

| Liabilities | At 30 June 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|
| Reportable segment liabilities | **1,236,054** | 1,157,926 |
| Interest-bearing borrowings | **2,990,252** | 2,888,912 |
| Current taxation | **–** | 1,560 |
| Deferred tax liabilities | **57,048** | 55,153 |
| Other unallocated head office and corporate liabilities | **25,848** | 36,919 |
| Consolidated total liabilities | **4,309,202** | 4,140,470 |

### (c) Geographical information

The Group's business is managed on a worldwide basis and divided into four principal economic regions, 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.

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| **Revenue** | ***RMB'000*** | *RMB'000* |
| The PRC | **1,299,502** | 1,108,314 |
| North America | **201,219** | 179,587 |
| Europe | **247,906** | 149,735 |
| Asia (other than the PRC) | **97,083** | 110,458 |
| Others | **31,295** | 20,140 |
| Total | **1,877,005** | 1,568,234 |

For the period ended 30 June 2017, the Group's customer base is diversified and includes one customer (2016: one customer) with whom transactions exceeded 10% but was less than 30% of the Group's revenue.

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Government grants | **3,615** | 6,524 |
| Sales of scrap materials | **256** | 275 |
| Dividend income from listed securities | **1,780** | – |
| Reversal of impairment loss for doubtful debts | **–** | 21 |
| Net gain on disposal of property, plant and equipment | **190** | – |
| Others | **467** | 505 |
| | **6,308** | 7,325 |

Subsidiaries of the Company located in the PRC received unconditional grants amounting to RMB342,000 (six months ended 30 June 2016: RMB4,256,000) from the local government in Danyang to reward their contribution to the local economy and encourage their technological innovation during the six months ended 30 June 2017. The Group also recognised amortisation of government grants related to assets of RMB3,273,000 (six months ended 30 June 2016: RMB2,268,000) during the six months ended 30 June 2017.

## 6. OTHER EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Provision of impairment losses for doubtful trade receivables | **3,211** | – |
| Net foreign exchange loss | **6,370** | 15,722 |
| Net loss on disposal of property, plant and equipment | **–** | 60 |
| Others | **224** | 642 |
| | **9,805** | 16,424 |

## 7. PROFIT BEFORE INCOME TAX

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

### (a) Net finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | **(2,664)** | (5,533) |
| Finance income | **(2,664)** | (5,533) |
| Interest on bank loans | **71,594** | 66,275 |
| Less: interest expense capitalised into property, plant and equipment under construction | **(12,492)** | (6,468) |
| Finance expenses | **59,102** | 59,807 |
| Net finance costs | **56,438** | 54,274 |

### (b) Other items

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories* | **1,662,936** | 1,377,160 |
| Depreciation | **108,243** | 103,474 |
| Amortisation of lease prepayments | **874** | 874 |
| Provision for write-down of inventories | **9,436** | 924 |

* *Cost of inventories includes RMB108,906,000 (six months ended 30 June 2016: RMB100,457,000) relating to depreciation expenses and provision for write-down of inventories, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.*

## 8. INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC income tax – corporation tax | **6,711** | 13,594 |
| Provision for Hong Kong profits tax | **–** | 983 |
| | **6,711** | 14,577 |
| **Deferred tax** | | |
| Reversal of temporary differences | **(1,514)** | (8,205) |
| | **5,197** | 6,372 |

(a) 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.

(b) 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. Jiangsu Tiangong Tools Company Limited, Tiangong Aihe Company Limited and Jiangsu Tiangong Technology Company Limited are subject to a preferential income tax rate of 15% in 2017 available to enterprises which qualify as a High and New Technology Enterprise (2016: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2016: 25%).

(c) Hong Kong profits tax has been provided for Tiangong Development Hong Kong Company Limited at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the period ended 30 June 2017.

## 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 RMB39,290,000 (six months ended 30 June 2016: RMB25,713,000) and the weighted average of 2,220,080,000 ordinary shares in issue during the interim period (six months ended 30 June 2016: 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 RMB39,290,000 (six months ended 30 June 2016: RMB25,713,000) and the weighted average number of ordinary shares of 2,225,934,849 (including effect of equity settled share-based transactions) (six months ended 30 June 2016: 2,220,080,000) for the six months ended 30 June 2017 after taking into account the potential dilutive effect of share options.

## 10. TRADE AND OTHER RECEIVABLES

| | At 30 June 2017 *RMB'000* | At 31 December 2016 *RMB'000* |
|---|---|---|
| Trade receivables | **1,043,181** | 988,696 |
| Bills receivable | **586,020** | 416,596 |
| Less: provision for doubtful debts | **(40,521)** | (37,310) |
| Net trade and bills receivable | **1,588,680** | 1,367,982 |
| Prepayments | **134,473** | 125,342 |
| Current taxation | **3,061** | – |
| Non-trade receivables | **108,584** | 84,059 |
| Net prepayments and non-trade receivables | **246,118** | 209,401 |
| | **1,834,798** | 1,577,383 |

Trade receivables of RMB149,037,000 (2016: RMB147,748,000) have been pledged to a bank as security for the Group's bank loans.

At 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:

| | At 30 June 2017 *RMB'000* | At 31 December 2016 *RMB'000* |
|---|---|---|
| Within 3 months | **1,353,368** | 1,118,311 |
| 4 to 6 months | **137,560** | 144,452 |
| 7 to 12 months | **73,565** | 74,003 |
| 1 to 2 years | **14,469** | 17,319 |
| Over 2 years | **9,718** | 13,897 |
| | **1,588,680** | 1,367,982 |

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

| | At 30 June 2017 RMB'000 | At 31 December 2016 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **1,075,511** | 1,123,111 |
| Less than 3 months past due | **21,126** | 23,421 |
| 3 to 6 months past due | **8,815** | 2,471 |
| Over 6 months past due | **6,641** | 15,506 |
| Amounts past due but not impaired | **36,582** | 41,398 |
| | **1,112,093** | 1,164,509 |

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

Receivables that were past due but not impaired relate to a number of customers that have a good payment 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.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group's customers are normally granted with a maximum credit period of 180 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

## 11. TRADE AND OTHER PAYABLES

At 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:

| | **At 30 June 2017** | At 31 December 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **649,469** | 472,360 |
| 4 to 6 months | **329,507** | 405,858 |
| 7 to 12 months | **18,837** | 34,522 |
| 1 to 2 years | **17,880** | 16,182 |
| Over 2 years | **32,021** | 28,832 |
| Total trade creditors and bills payable | **1,047,714** | 957,754 |
| Non-trade payables and accrued expenses | **167,745** | 187,375 |
| | **1,215,459** | 1,145,129 |

## 12. CAPITAL, RESERVES AND DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved but not paid during the interim period:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0100 per share (six months ended 30 June 2016: RMB0.0065 per share) | **22,200** | 14,431 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Market Review

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Die steel ("DS") | **786,331** | **41.9** | 534,209 | 34.1 | 252,122 | 47.2 |
| High Speed Steel ("HSS") | **306,052** | **16.3** | 206,838 | 13.2 | 99,214 | 48.0 |
| Cutting tools | **232,079** | **12.4** | 237,519 | 15.1 | (5,440) | (2.3) |
| Titanium alloy | **84,101** | **4.5** | 98,416 | 6.3 | (14,315) | (14.5) |
| Trading of goods | **468,442** | **24.9** | 491,252 | 31.3 | (22,810) | (4.6) |
| | **1,877,005** | **100.0** | 1,568,234 | 100.0 | 308,771 | 19.7 |

After the efforts devoted to develop the eastern and southern China market through strategic partners and gaining additional market share as a result of removal of excess capacity in the PRC steel industry in 2016, the Group successfully recovered from the trough of the industry. Both DS and HSS recorded a significant growth in sales volume, especially in the PRC domestic market.

At the same time, driven by an upward pricing trend in rare metals to which the Group uses as raw materials, the average selling price of the Group's products generally increased since most of the increased cost of rare metals was conductible to customers in the special steel industry.

With the positive impact on both sales volume and average selling prices, the Group recorded an overall 19.7% growth in revenue, mainly contributed by the two major segments, DS and HSS.

***DS – accounted for approximately 42% of the Group's revenue in 1H2017***

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **428,607** | **54.5** | 223,422 | 41.8 | 205,185 | 91.8 |
| Export | **357,724** | **45.5** | 310,787 | 58.2 | 46,937 | 15.1 |
| | **786,331** | **100.0** | 534,209 | 100.0 | 252,122 | 47.2 |

DS is manufactured using rare metals including molybdenum, chromium and vanadium, a type of high alloy special steel. DS is mainly used in die and mould casting as well as machining processing. Many different manufacturing industries require moulds, including the automotive, high-speed railway construction, aviation and plastic product manufacturing industries.

In 1H2017, revenue generated from the DS segment increased by approximately 47.2% to RMB786,331,000 (1H2016: RMB534,209,000). Driven by an upward pricing trend in rare metals to which the Group uses as raw materials, the average selling prices of DS products generally increased.

In accordance with the strategic plan to penetrate the eastern and southern China markets, the Group established associates, Jiangsu Ningxing Tiangong Mould Company Limited and Shenzhen 51 Mocai Technology Company Limited, in the relevant areas in the second half of 2016 to strengthen its distribution network in the domestic PRC market. Coinciding with a recovery in demand in the domestic PRC market in the first half of 2017, the strategic plan achieved a significant return. Accordingly, there was an increase in domestic revenue by 91.8% to RMB428,607,000 (1H2016: RMB223,422,000).

Regarding overseas markets, demand was relatively stable compared to the first half of 2016, with 3% increase in sales volume was recorded. An increase in export revenue of 15.1% to RMB357,724,000 (1H2016: RMB310,787,000) was mainly attributable to an increase in average selling prices of DS products.

***HSS – accounted for approximately 16% of the Group's revenue in 1H2017***

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **208,613** | **68.2** | 138,405 | 66.9 | 70,208 | 50.7 |
| Export | **97,439** | **31.8** | 68,433 | 33.1 | 29,006 | 42.4 |
| | **306,052** | **100.0** | 206,838 | 100.0 | 99,214 | 48.0 |

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

Similar to situation in DS, average selling prices of HSS products generally increased as a result of rising procurement prices of rare metals. However, recovery of demand in HSS was relatively slower compared to DS.

In the PRC domestic market, a moderate recovery in demand in HSS was experienced. Coupled with the impact of an increase in average selling prices, domestic revenue increased by 50.7% to RMB208,613,000 (1H2016: RMB138,405,000).

For overseas markets, recent market development efforts allowed the Group's HSS products to gain a new application footprint. The application of the Group's HSS products has now been applied by new customers who produce thimble and complex tools. With this wider application and coverage, export revenues of HSS increased by 42.4% to RMB97,439,000 (1H2016: RMB68,433,000).

***Cutting tools – accounted for approximately 12% of the Group's revenue in 1H2017***

| | **For the six months ended 30 June** | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **109,738** | **47.3** | 85,537 | 36.0 | 24,201 | 28.3 |
| Export | **122,341** | **52.7** | 151,982 | 64.0 | (29,641) | (19.5) |
| | **232,079** | **100.0** | 237,519 | 100.0 | (5,440) | (2.3) |

Cutting tools segment included HSS and carbide cutting tools. HSS cutting tools products can be categorised 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 high end carbide tools manufactured by the Group mainly comprised of customised tools.

Competition in both the PRC domestic and overseas markets of cutting tools remained severe. A competitive pricing strategy has been consistently applied since the second half of 2016.

In the PRC domestic market, the demand for cutting tools was supported by the recovery of various manufacturing industries, such as automobile, home appliance and shipbuilding industries. As such, under the Group's competitive pricing strategy, an increase in sales volume fully contributed to an increase in domestic revenue by 28.3% to RMB109,738,000 (1H2016: RMB85,537,000).

For overseas market, certain demand for high end cutting tools shifted from HSS cutting tools to carbide tools. To cope with this change in the demand, the Group commenced the production of high end carbide tools in 2016. During this transitional period, the Group's export sales volume was affected, which resulted in a decrease in export revenue by 19.5% to RMB122,341,000 (1H2016: RMB151,982,000).

*Titanium alloy – accounted for approximately 5% of the Group's revenue in 1H2017*

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | 2016 | | Change | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **81,927** | **97.4** | 98,416 | 100.0 | (16,489) | (16.8) |
| Export | **2,174** | **2.6** | – | – | 2,174 | – |
| | **84,101** | **100.0** | 98,416 | 100.0 | (14,315) | (14.5) |

Titanium alloy segment has been a growing segment among the Group's products. The corrosion resistance nature of the titanium alloy promoted the extensive applications of titanium alloy in various industries, including aerospace, chemical pipeline equipment, nuclear and ocean industries.

After 4 years of efforts to capture titanium alloy market share, the Group adjusted its pricing strategy to strengthen the profitability of its titanium alloy products. Titanium alloy was priced at a more profitable level in the first half of 2017. Accordingly, compromised by a decrease in sales volumes, higher average selling prices were set to achieve long term profitability. Domestic revenue fell by 16.8% to RMB81,927,000 (1H2016: RMB98,416,000).

The Group started to export titanium alloy from the second half of 2016. The Group continued to develop overseas markets in 2017 with relatively good progress achieved.

*Trading of goods*

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

**Outlook**

After improving pricing power in the PRC domestic market and establishing a distribution network in the eastern and southern China market, the Group understood that research and development and, eventually, product advancement were essential to allow itself to fully utilise the advantage in pricing and distribution.

To enhance the Group's innovation and research and development capacity, a new research centre will be put into full operation by the end of 2017. In the meantime, new research projects are developed with the co-operation of various research institutes, including Nanjing Tech University. All the new research and development projects to be conducted at the new research centre would be related to applying the Group's products into new material industry specified in the "China's 13th Five-Year Plan" and "China Manufacturing 2025", aligning with the national development direction of China.

The Group believes that innovation and advancement are the best way to remain competitive and will eventually realise the true value of the Group's businesses.

Last but not least, 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 Group'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 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.

**Financial review**

Net profit attributable to equity shareholders of the Company increased by approximately 52.8% from RMB25,713,000 in the first half of 2016 to RMB39,290,000 in the first half of 2017. The increase was mainly attributable to (i) rebound of sales volume of the Group's DS and HSS segments during the period; and (ii) upward pricing trend in rare metals to which the Group uses as raw materials, which in turn stimulated an increase in the average selling prices of the Group's DS and HSS segments.

***Revenue***

Revenue of the Group for the first half of 2017 totalled RMB1,877,005,000, representing an increase of 19.7% when compared with RMB1,568,234,000 in the first half of 2016. The increase was mainly attributable to an increase in revenue of the Group's two major segments, DS and HSS.

***Cost of sales***

The Group's cost of sales increased from RMB1,381,307,000 for the first half of 2016 to RMB1,662,936,000 for the first half of 2017, representing an increase of 20.4%. The increase was mainly due to an increase in sales during the period.

*Gross margin*

For the first half of 2017, gross margin was 11.4% (1H2016: 11.9%). Set out below is the gross margin for our five segments for the first half of 2016 and 2017:

| | For the six months ended 30 June | |
|---|---|---|
| | **2017** | 2016 |
| DS | **15.0%** | 18.2% |
| HSS | **17.2%** | 17.0% |
| Cutting tools | **14.2%** | 16.8% |
| Titanium alloy | **11.5%** | 13.7% |
| Trading of goods | **0.14%** | 0.19% |

*DS*

The gross margin of DS decreased from 18.2% in the first half of 2016 to 15.0% in the first half of 2017. While the average selling price was stimulated by an upward pricing trend in rare metals to which the Group uses as raw materials, gross margin fell because of the time lag between the time when procurement prices of raw materials increased and the time when the Group increased the average selling prices of its products after peers reflected such increase in order to ensure the Group remained price competitive. As a result, gross margin was squeezed in the transitional period leading to a fall in the overall gross margin of DS during the reporting period.

*HSS*

The HSS gross margin remained stable at 17.2% in the first half of 2017 compared to 17.0% in the first half of 2016. For HSS, other than chromium, molybdenum and vanadium, tungsten was specifically used for the production of HSS and contributed a major composition among the rare metals. During the first half of 2017, the price of tungsten remained relatively stable compared to other rare metals. Consequently, gross margin of HSS was less affected and remained stable at 17%.

*Cutting tools*

The gross margin of cutting tools decreased from 16.8% in the first half of 2016 to 14.2% in the same period in 2017. The decrease was mainly due to the competitive pricing strategy applied by the Group to secure market share in domestic and overseas markets.

*Titanium alloy*

The gross margin of titanium alloy decreased from 13.7% in the first half of 2016 to 11.5% in the first half of 2017. Although the Group changed to a profitable pricing strategy, titanium alloy products encountered similar gross margins pressure as DS. The price of raw materials of titanium alloy, spongy titanium, was also in an upward trend. The gross margin of titanium alloy products was squeezed in this continuous upward trend.

***Other income***

The Group's other income decreased from RMB7,325,000 in the first half of 2016 to RMB6,308,000 in the first half of 2017. The decrease was mainly attributable to the combined effect of (i) decrease in the PRC government grants received from the PRC government; and (ii) dividend income from listed securities in PRC, which was nil in the same period in 2016.

***Distribution expenses***

The Group's distribution expenses were RMB42,255,000 (1H2016: RMB28,829,000), representing an increase of 46.6%. The increase was mainly due to (i) significant increase in sales volume compared to the same period of 2016; and (ii) marketing and advertising campaign expenses incurred in 2017 related to "China Manufacturing Forum 2025". For the first half of 2017, distribution expenses as a percentage of revenue were 2.3% (1H2016: 1.8%).

***Administrative expenses***

For the first half of 2017, the Group's administrative expenses decreased to RMB63,429,000 (1H2016: RMB67,363,000). The decrease was mainly due to incentive provided to raise morale of the work force to cope with the recession in 2016. Such incentive was not provided in 2017. For the first half of 2017, administrative expenses as a percentage of revenue were 3.4% (1H2016: 4.3%).

***Net finance cost***

The Group's net finance cost increased from RMB54,274,000 in the first half of 2016 to RMB56,438,000 in the first half of 2017, which was attributable to lower interest income generated from a lower average bank balance during the first half of 2017.

***Income tax expense***

The Group's income tax expense decreased from RMB6,372,000 in the first half of 2016 to RMB5,197,000 in the first half of 2017. The decrease was due to the encouragement of research and development by the local government. Research and development expenses were given an extra income tax deduction, which provided a tax saving benefit during the period.

*Profit for the period*

As a result of the factors set out above, the Group's profit increased by 52.3% to RMB40,905,000 for the first half of 2017 from RMB26,864,000 for the first half of 2016. The Group's net profit margin increased from 1.7% in the first half of 2016 to 2.2% in the same period of 2017.

*Profit attributable to equity shareholders of the Company*

For the first half of 2017, profit attributable to equity shareholders of the Company was RMB39,290,000 (1H2016: RMB25,713,000), representing an increase of 52.8%.

*Trade and bills receivable*

The net trade and bills receivable increased from RMB1,577,383,000 as at 31 December 2016 to RMB1,834,798,000 as at 30 June 2017, which was mainly due to an increase in sales in the first half of 2017. The provision for doubtful debts of RMB40,521,000 (2016: RMB37,310,000) accounted for 2.6% (2016: 2.7%) of the trade and bills receivables.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group's current assets mainly included cash and cash equivalents of RMB294,745,000, inventories of RMB1,999,433,000, trade and other receivables of RMB1,834,798,000, time deposits of RMB449,506,000 and pledged deposits of RMB201,381,000. The Group's current assets remained relatively stable at RMB4,782,008,000 compared to RMB4,558,884,000 as at 31 December 2016.

As at 30 June 2017, interest-bearing borrowings of the Group were RMB2,990,252,000 (31 December 2016: RMB2,888,912,000), RMB2,573,364,000 (31 December 2016: RMB2,678,912,000) of which were repayable within one year and RMB416,888,000 (31 December 2016: RMB210,000,000) of which were repayable over 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) was 48.9%, compared to 43.5% as at 31 December 2016.

As at 30 June 2017, borrowings of RMB2,053,900,000 (31 December 2016: RMB2,033,050,000) were in RMB, USD90,923,000 (31 December 2016: USD89,216,000) were in USD and EUR41,345,000 (31 December 2016: EUR34,752,000) were in EUR. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.60% to 5.22% (31 December 2016: 0.70% to 5.75%). The Group did not enter into any interest rate swaps to hedge itself against risks associated with interest rates changes. Net cash used in operating activities during the period was RMB95,531,000 (31 December 2016: RMB494,768,000 generated from operating activities).

## CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2017, the Group's net decrease in fixed assets amounted to RMB32,817,000 (1H2016: RMB3,556,000 net increase). Compared to the capital expenditures undertaken in relation to production plant for thin steel plate and research centre in the first half of 2016, the Group initiated fewer projects and therefore incurred less capital expenditures in the first half of 2017. As at 30 June 2017, capital commitments were RMB183,451,000 (31 December 2016: RMB209,198,000), of which RMB41,210,000 (31 December 2016: RMB56,921,000) was contracted for and RMB142,241,000 (31 December 2016: RMB152,277,000) was authorised but not contracted for. The majority of capital commitments related to the acquisition and enhancement of production equipment.

## FOREIGN EXCHANGE EXPOSURE

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (69.2% (31 December 2016: 67.9%)). 30.8% (31 December 2016: 32.1%) of the total sales and operating profit were subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a more timely basis to minimise any financial impact from exchange rate exposure.

## PLEDGE OF ASSETS

As at 30 June 2017, the Group pledged certain bank deposits amounting to approximately RMB201,381,000 (31 December 2016: RMB180,180,000) and certain trade receivables amounting to approximately RMB149,037,000 (31 December 2016: RMB147,748,000). Details are set out in the notes to the financial statements.

## EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2017, the Group employed 3,052 employees (31 December 2016: 3,423). 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 education and training for all of its staff on a regular basis.

## CONTINGENT LIABILITIES

Both the Group and the Company had no material contingent liabilities as at 30 June 2017 (31 December 2016: No material contingent liabilities).

## INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2016).

## SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "2007 Share Option 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 2007 Share Option Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275 per share. All the unexercised 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 unexercised 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.

Subsequently 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 were 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.

The 2007 Share Option Scheme expired on 6 July 2017. A total of 16,200,000 shares have been allotted and issued pursuant to the 2007 Share Option Scheme, 34,764,000 options granted under the 2007 Share Option Scheme were cancelled and lapsed and 41,117,000 options granted under the 2007 Share Option Scheme remained outstanding and exercisable until 31 December 2017 according to the terms of grant, notwithstanding the expiry of the 2007 Share Option Scheme.

New share option scheme of the Company (for details, please refer to the circular of the Company dated 25 April 2017) and the expiry of the 2007 Share Option Scheme were approved by the Company in the Annual General Meeting held on 26 May 2017.

## PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2017, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors. The Audit Committee held a meeting on 14 August 2017 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2017 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

## 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, 15 August 2017

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

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

*Independent non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis and WANG Xuesong*

* *For identification purpose only*