THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offers, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Tiangong International Company Limited, you should at once hand this Composite Document and the accompanying Forms of Acceptance to the purchaser(s) or transferee(s), licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Forms of Acceptance, the contents of which form part of the terms and conditions of the Offers.

Sky Greenfield Investment Limited

(incorporated in the Cayman Islands with limited liabilities)

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

(Incorporated in the Cayman Islands with limited liability)
(stock code: 826)

COMPOSITE OFFER AND RESPONSE DOCUMENT

CONDITIONAL VOLUNTARY GENERAL OFFERS BY ABCI CAPITAL LIMITED ON BEHALF OF SKY GREENFIELD INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES OF TIANGONG INTERNATIONAL COMPANY LIMITED AND FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF TIANGONG INTERNATIONAL COMPANY LIMITED

Financial Advisor to the Offeror

農銀國際
ABC INTERNATIONAL

Independent Financial Advisor to the Independent Board Committee of Tiangong International Company Limited

OPTIMA CAPITAL
Optima Capital Limited

Holders of the Shares and the Options should inform themselves of and observe any applicable legal or regulatory requirements. See "Important Notice" beginning on page iv of this Composite Document and "General matters relating to the Offers — Availability of the Offers" of the letter from ABCI beginning on page 7 of this Composite Document.

Capitalised terms used in this cover page have the same meaning as those defined in the section headed "Definitions" in this Composite Document. A "Letter from ABCI" containing, among other things, the details of the terms and conditions of the Offers are set out on pages 7 to 20 of this Composite Document. A letter from the Board is set out on pages 21 to 26 of this Composite Document. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders and the Independent Optionholders in respect of the Offers is set out on pages 27 to 28 of this Composite Document. A letter from Optima Capital containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 29 to 52 of this Composite Document.

The procedures for acceptance and settlement of the Offers are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances of the Share Offer and the Option Offer contained herein should be received by the Registrar, by no later than 4:00 p.m. on Friday, 17 November 2017 or such later time or date as the Offeror may determine and announce, with the consent of the Executive and in accordance with the Takeovers Code.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the Forms of Acceptance to any jurisdiction outside of Hong Kong should read the details in this regard which are contained in the section headed "General Information — General matters relating to the Offers — Availability of the Offers" of the "Letter from ABCI" in this Composite Document before taking any action. It is the responsibility of each overseas Shareholder and overseas Optionholder wishing to accept the Offers to satisfy himself, herself or itself as to full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Shareholders and overseas Optionholders are advised to seek professional advice on deciding whether to accept the Offers.

* *For identification purposes only*

27 October 2017

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The timetable set out below is indicative only and may be subject to changes. Any changes to the timetable will be announced by the Offeror and the Company as and when appropriate.

Despatch date of the Composite Document	Friday, 27 October 2017
Opening date of the Share Offer and the Option Offer	Friday, 27 October 2017
First Closing Date *(Note 1)*	Friday, 17 November 2017
Latest time for acceptance of the Share Offer and the Option Offer on the first Closing Date *(Note 2)*	4:00 p.m. on Friday, 17 November 2017
Announcement of the results of the Share Offer and the Option Offer as at the first Closing Date, on the website of the Stock Exchange	7:00 p.m. on Friday, 17 November 2017
Latest date for posting of remittances and share certificates to Shareholders and Optionholders in respect of valid acceptances received by the first Closing Date, assuming the Share Offer and the Option Offer become, or are declared, unconditional on the first Closing Date *(Note 3)*	Tuesday, 28 November 2017
Latest time and date for acceptance of the Offers assuming the Share Offer and the Option Offer become, or are declared, unconditional on the first Closing Date *(Note 4)*	4:00 p.m. on Monday, 11 December 2017
Latest time and date by which the Share Offer and the Option Offer can become or be declared unconditional in all respects *(Note 4)*	7:00 p.m. on Wednesday, 27 December 2017

Notes:

1. The Share Offer and the Option Offer will close for acceptances at 4:00 p.m. on 17 November 2017 unless the Offeror revises or extends the Offers in accordance with the Takeovers Code. The Offeror has the right under the Takeovers Code to extend the Offers until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue an announcement in relation to any extension of the Offers, which announcement will state either the next Closing Date or, if the Share Offer is at that time unconditional as to acceptances, a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given before the Share Offer and the Option Offer are closed to those Shareholders and those Optionholders who have not accepted the Share Offer and the Option Offer, respectively.

2. Beneficial owners of the Shares who hold their Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I to this Composite Document) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

   Acceptances of the Offers are irrevocable and are not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of Withdrawal" in Appendix I of this Composite Document.

3. Remittances in respect of the consideration for the Shares tendered under the Share Offer will be posted to those Shareholders accepting the Share Offer as soon as possible, but in any event within seven Business Days from the later of the date of receipt by the Registrar of all the relevant documents to render the acceptance under the Share Offer complete and valid, and the date on which the Offers become or are declared unconditional in all respects.

   Remittances in respect of consideration for the Options tendered under the Option Offer will be posted to those Optionholders accepting the Option Offer as soon as possible, but in any event within seven Business Days from the later of the date of receipt by the Registrar of all relevant documents to render the acceptance under the Option Offer complete and valid, and the date on which the Offers become or are declared unconditional in all respects.

4. In accordance with the Takeovers Code, when the Share Offer and the Option Offer become or are declared unconditional in all respects, at least 14 days' notice in writing must be given before the Share Offer and the Option Offer are closed to those Shareholders and Optionholders who have not accepted the Share Offer and Option Offer, respectively. In accordance with the Takeovers Code, except with the consent of the Executive, the Share Offer may not become or be declared unconditional as to acceptances after 7:00 p.m. on the 60th day after the day this Composite Document is posted. Accordingly, unless the Share Offer has previously become unconditional as to acceptances, the Share Offer and the Option Offer will lapse on 27 December 2017 unless extended with the consent of the Executive. The Option Offer is conditional on the Share Offer becoming or being declared unconditional in all respects and will remain open for so long as the Share Offer remains open for acceptance.

All time and date references contained in this Composite Document and accompanying Forms of Acceptance are to Hong Kong times and dates.

NOTICE TO US HOLDERS OF THE SHARES

The Share Offer will be made for the securities of a Cayman Islands company and is subject to Hong Kong disclosure and other procedural requirements, which are different from those of the United States securities laws. In addition, US holders of the Shares should be aware that this Composite Document has been prepared in accordance with Hong Kong format and style, which differs from United States format and style. The Share Offer will be extended into the United States pursuant to the applicable US tender offer rules or certain available exemption therefrom and otherwise in accordance with the requirements of the SFO. Accordingly, the Share Offer will comply with the relevant Hong Kong disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, which differ from those applicable under US tender offer procedures and law.

The receipt of cash pursuant to the Share Offer by a US holder of the Shares may be a taxable transaction for US federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of the Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

The financial information of the Group included in this Composite Document has been extracted from the audited financial statements of the Group for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the unaudited financial statements of the Group for the six months ended 30 June 2017 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Such financial information may not be wholly comparable to financial information of US companies or companies whose financial statements are solely prepared in accordance with Generally Accepted Accounting Principles in the United States.

It may be difficult for US holders of the Shares to enforce their rights and claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the United States, and some or all of its officers and directors may be residents of a country other than the United States. In addition, most of the assets of the Offeror and the Group are located outside the United States. US holders of the Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the securities laws of the United States. Further, it may be difficult for US holders of the Shares to effect service of process within the United States upon the Offeror or the Company or their respective officers or directors or to enforce against them a judgment of a US Court predicated upon the federal or state securities laws of the United States.

In accordance with the normal Hong Kong practice and pursuant to Rule 14(e)-5(b) of the US Exchange Act, the Offeror hereby discloses that it or its affiliates or its nominees, or their respective brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, the Shares outside of the United States, other than pursuant to the Share Offer, before or during the period in which the Share Offer remains open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices provided that (i) any such purchase or arrangement complies with applicable law and is made outside the United States, and (ii) the Share Offer Price is increased to match any consideration paid in any such purchase or arrangement, if such consideration is higher than the Share Offer Price, if any. Any information about such purchases will be reported to the SFC and will be available on the SFC website at http://www.sfc.hk/.

NOTICE TO HOLDERS OUTSIDE OF HONG KONG AND THE UNITED STATES

The making and implementation of the Share Offer to holders of the Shares and the Option Offer to Optionholders who are not resident in Hong Kong or the United States may be subject to the laws of the relevant jurisdictions in which such holders are located. Such holders should inform themselves about and observe any applicable legal or regulatory requirements.

Please refer to the section headed "General matters relating to the Offers — Availability of the Offers" of the "Letter from ABCI" in this Composite Document for further information.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as "believe", "expect", "anticipate", "intend", "plan", "seek", "estimate", "will", "would" or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements.

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise.

"ABCI"	means ABCI Capital Limited, a corporation licensed by the SFC to carry out business in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) under the SFO, being the agent making the Offers on behalf of the Offeror and the financial adviser to the Offeror in respect of the Offers;
"Accepting Shareholders"	means the Shareholders who accept the Share Offer;
"Affiliates"	means in relation to a party, (i) an entity which is directly or indirectly controlled by, or under common control with, or (whether acting alone or jointly and in concert with another) in control of, such party, and (ii) an individual (whether acting alone or jointly and in concert with another) which directly or indirectly controls such party. For the purpose of this definition, the term "control" means (i) the ownership of more than fifty per cent (50%) of the voting shares or the registered capital of an entity, (ii) being the single largest owner of the voting shares or the registered capital of an entity, or (iii) having the power to appoint or elect a majority of the directors or the power to direct the management of an entity;
"Announcement"	means the joint announcement issued by the Offeror and the Company on 14 September 2017 in relation to the Offers;
"Assignment of Shareholder Loan"	means the assignment in respect of all the rights in the shareholder loans in an aggregate amount of not less than HK$420,000,000 made by Mr. Zhu Zefeng to the Offeror from time to time in favour of ABCI Securities Company Limited as security for the banking facility provided to Offeror for the purpose of financing part of the Share Offer;
"associate"	has the meaning ascribed to it in the Takeovers Code;
"Beneficial Owner"	means any beneficial owner of the Shares registered in the name of any nominee, trustee, depositary or any other authorized custodian or third party;
"Board"	means the board of directors of the Company;
"Business Day"	means a full day on which the Stock Exchange is open for business of dealing in securities;
"Cayman Islands Companies Law"	means the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;

"CCASS"	means the Central Clearing and Settlement System established and operated by HKSCC;
"Closing Date"	means the date stated in this Composite Document as the first closing date of the Share Offer or any subsequent closing date as may be announced by the Offeror and approved by the Executive;
"Company"	means Tiangong International Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 826);
"Composite Document"	means this composite document issued jointly by the Offeror and the Company to all Shareholders and Optionholders in connection with the Share Offer and the Option Offer and in accordance with the Takeovers Code which contains, *inter alia*, details of the Share Offer and the Option Offer, the terms and conditions of the Share Offer and the Option Offer, a letter from the Independent Board Committee and a letter from Optima Capital in respect of the Share Offer and the Option Offer;
"Concert Parties"	means parties acting in concert with the person or party as specified as determined in accordance with the Takeovers Code;
"Conditions"	means the conditions of the Share Offer, as set out under the section headed *"Conditions to the Share Offer"* of the "Letter from ABCI" of this Composite Document;
"Consent(s)"	means any consent, approval, authorization, qualification, waiver, permit, grant, franchise, concession, agreement, licence, exemption or order of, registration, certificate, declaration or permission from, or filing with, or report or notice to, any Relevant Authority(ies) or third parties, including those required under or in relation to any concession rights or licences granted by the Relevant Authority(ies) or third parties to the Group to carry out its operations, whether under applicable laws or regulations, any agreement or arrangement with such Relevant Authority(ies) or third parties, or otherwise;
"Despatch Date"	means 27 October 2017, the date of despatch of this Composite Document and the formal document containing details of the Option Offer;
"Executive"	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;

"Forms of Acceptance"	means the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance, and "Form of Acceptance" shall mean any one of them;
"Group"	means the Company and its subsidiaries;
"HK$"	means Hong Kong dollar(s), the lawful currency of Hong Kong;
"HKSCC"	means Hong Kong Securities Clearing Company Limited;
"HKSCC Nominees"	means HKSCC Nominees Limited;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	means an independent board committee of Board comprising all the independent non-executive directors of the Company, namely, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong;
"Independent Optionholders"	means Optionholders other than Mr. Zhu Xiaokun and Mr. Zhu Zefeng;
"Independent Shareholders"	means Shareholders other than the Offeror's Concert Parties;
"Investor Participant"	means the person admitted to participate in CCASS as investor participants;
"Last Trading Date"	means 11 September 2017, being the last full trading day prior to the suspension of trading in the Shares on the Stock Exchange pending the publication of the Announcement;
"Latest Practicable Date"	means 25 October 2017, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information for inclusion in this Composite Document;
"Listing Rules"	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"New Share Option Scheme"	means the share option scheme adopted by the Company on 26 May 2017;
"Offers"	means the Share Offer and the Option Offer;

"Offer Period"	means the period from 14 September 2017, being the date of the Announcement, to the Closing Date, or such other time and/or date to which the Offeror may decide to extend or revise the Offers in accordance with the Takeovers Code;
"Offeror"	means Sky Greenfield Investment Limited, which is wholly and beneficially owned by Mr. Zhu Zefeng;
"Old Share Option Scheme"	means the share option scheme adopted by the Company on 7 July 2007;
"Optima Capital"	means Optima Capital Limited, the independent financial adviser to the Independent Board Committee in connection with the Offers. Optima Capital Limited is a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO;
"Options"	means share options granted by the Company pursuant to the Old Share Option Scheme of the Company, whether vested or not;
"Option Offer"	means the proposal to be made by the Offeror in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding Options in accordance with the terms and conditions set out in this Composite Document;
"Optionholders"	means the holders of the Options;
"PRC"	means the People's Republic of China (excluding Hong Kong, Macau and Taiwan);
"Registered Owner"	means any nominee, trustee, depositary or any other authorized custodian or third person who is the registered holder of the Shares;
"Registrar"	means Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong;
"Relevant Authority(ies)"	means any relevant government, governmental, quasi-governmental, statutory or regulatory authority, body, agency, tribunal, court or institution;
"Relevant Period"	means the period from 14 March 2017, being the date six months before the date of the Announcement, up to and including the Latest Practicable Date;

"SFC"	means the Securities and Futures Commission of Hong Kong;
"SFO"	means the Securities and Futures Ordinances (Chapter 571 of the laws of Hong Kong);
"Shares"	means ordinary shares of US$0.0025 each in the issued share capital of the Company;
"Share Charges"	means the share charges in respect of all their interests in the Shares provided by THCL, SPHK and the Offeror in favour of ABCI Securities Company Limited as security for the banking facility provided to the Offeror for the purpose of financing part of the Share Offer;
"Share Mortgage"	means the share mortgage in respect of all his interests in the shares of the Offeror provided by Mr. Zhu Zefeng in favour of ABCI Securities Company Limited as security for the banking facility provided to the Offeror for the purpose of financing part of the Share Offer;
"Share Offer"	means the conditional voluntary offer by the Offeror to acquire all of the outstanding Shares in accordance with the terms and conditions set out in this Composite Document;
"Share Offer Price"	being HK$0.90 per Share;
"Shareholders"	means a registered holder for the time being of Share(s);
"SPHK"	means Silver Power (HK) Limited, wholly and beneficially owned by Mr. Zhu Xiaokun, which holds 43,932,000 Shares, representing approximately 1.979% of the total issued share capital of the Company, as at the Latest Practicable Date;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"subsidiaries"	has the meaning ascribed to it in the Listing Rules;
"Takeovers Code"	means The Codes on Takeovers and Mergers and Share Repurchases published by the SFC;
"THCL"	means Tiangong Holdings Company Limited, beneficially owned as to 89.02% and 10.98% by Mr. Zhu Xiaokun and Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun, respectively, which holds 743,458,000 Shares, representing approximately 33.488% of the total issued share capital of the Company as at the Latest Practicable Date;

"Unconditional Date"	means the date on which the Offers become or are declared unconditional in all respects;
"US"	means United States of America;
"US$"	means United States dollars, the lawful currency of the United States of America;
"US Exchange Act"	means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;
"%"	means per cent.

1. All time and date references contained in this Composite Document refer to Hong Kong times and dates.

2. Certain amounts and percentage figures in this Composite Document have been subject to rounding adjustments.

3. Certain English translations of Chinese names or words or Chinese translations of English names or words in this Composite Document are included for information and identification purposes only and should not be regarded as the official English translation of such Chinese names or words or Chinese translation of such English names or words, respectively.

4. The singular includes the plural and vice versa, unless the context otherwise requires.

5. References to any Appendix, paragraph and any sub-paragraphs of them are references to the Appendices to, and paragraphs of, this Composite Document and any sub-paragraphs of them respectively.

6. References to any statute or statutory provision include a statute or statutory provision which amends, consolidates or replaces the same whether before or after the date of this Composite Document.

7. Reference to one gender is a reference to all or any genders.

農銀國際
ABC INTERNATIONAL

ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

27 October 2017

To Shareholders and Optionholders

Dear Sir or Madam,

1. INTRODUCTION

Reference is made to the Announcement pursuant to which the Offeror and the Company jointly announced on 14 September 2017 that ABCI would, on behalf of the Offeror, make the following voluntary conditional cash offers:

(i) The Share Offer: to acquire all of the outstanding Shares in the issued share capital of the Company (other than those already owned by the Offeror and its Concert Parties) at HK$0.90 per Share; and

(ii) The Option Offer: to cancel all of the outstanding Options of the Company at HK$0.01 per Option with exercise price at HK$1.78 per Option and HK$0.03 per Option with exercise price at HK$0.06 per Option.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Offeror, details of the Offers, the reasons for making the Offers and the intentions of the Offeror in relation to the Group. Further details on the terms of the Offers are set out in Appendix I — "Further Terms of the Offers" to the Composite Document and in the accompanying Forms of Acceptance.

Your attention is further drawn to the "Letter from the Board" on pages 21 to 26, the "Letter from the Independent Board Committee" on pages 27 to 28 and the "Letter from Optima Capital" on pages 29 to 52 in this Composite Document.

2. THE SHARE OFFER

As at the Latest Practicable Date, there are 2,220,080,000 Shares in issue. Subject to the Conditions, the Share Offer will be made by ABCI on behalf of the Offeror on the following basis:

(1) Shareholders accepting the Share Offer will receive the Share Offer Price of HK$0.90 in cash.

(2) The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Share Offer Price

Comparisons of value

The Share Offer Price of HK$0.90 per Share:

(1) is equal to the closing price of HK$0.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(2) represents a premium of approximately 12.50% over the closing price of HK$0.800 per Share as quoted on the Stock Exchange on the Last Trading Date;

(3) represents a premium of approximately 11.66% over the average closing price of approximately HK$0.806 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;

(4) represents a premium of approximately 10.29% over the average closing price of approximately HK$0.816 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Date;

(5) represents a premium of approximately 8.43% over the average closing price of approximately HK$0.830 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(6) represents a premium of approximately 19.05% over the average closing price of approximately HK$0.756 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(7) represents a discount of approximately 55.51% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.023 as at 31 December 2016; and

(8) represents a discount of approximately 57.08% to the unaudited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.097 as at 30 June 2017.

For the purpose of item (7) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.89451 as at 31 December 2016 and for the purpose of item (8) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.86792 as at 30 June 2017.

Highest and Lowest Share Prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.97 on 17 March 2017 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.63 on 25 May 2017 and 26 May 2017, respectively.

3. THE OPTION OFFER

As at the Latest Practicable Date, there are outstanding Options in respect of 41,117,000 Shares. The respective exercise price and exercise period of the Options are as follows:

Exercise price *(HK$ per Share)*	**Exercise period**	**Number of outstanding Options as at the Latest Practicable Date**
1.78	from 19 August 2014 to 18 August 2019	22,147,000
0.60	from 1 January 2017 to 31 December 2017	18,970,000

All Options were granted under the Old Share Option Scheme and are vested and exercisable. As at the Latest Practicable Date, there are no outstanding Share Options under the New Share Option Scheme.

Option Offer

Under the Option Offer, appropriate offers will be made by ABCI on behalf of the Offeror to Independent Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options (whether vested or not) in exchange for cash:

(A) In respect of Options with an exercise price of HK$1.78:

For cancellation of each such Option . . . . HK$0.01 in cash

(B) In respect of Options with an exercise price of HK$0.60:

For cancellation of each such Option . . . . HK$0.30 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced on the Closing Date.

4. VALUE OF THE OFFERS

As at the Latest Practicable Date, there are 2,220,080,000 Shares in issue. Save for 788,990,000 Shares that are already owned by the Offeror and its Concert Parties, a total of 1,431,090,000 Shares will be subject to the Share Offer.

As at the Latest Practicable Date, there are a total of 22,147,000 and 18,970,000 Options outstanding at exercise price of HK$1.78 and HK$0.60, respectively, entitling the Optionholders to subscribe for Shares pursuant to the Old Share Option Scheme. In the event all of the outstanding Options (i.e. Options with exercise price lower than the Share Offer Price), other than those held by Mr. Zhu Zefeng and Mr. Zhu Xiaokun exercisable into a total of 3,200,000 Shares, are exercised in full by the Optionholders prior to the Closing Date, the Company will have to issue 37,917,000 new Shares, representing approximately 1.68% of the enlarged issued share capital of the Company.

Based on the Share Offer Price of HK$0.90 per Share and 1,431,090,000 outstanding Shares not held or agreed to be acquired by the Offeror and its Concert Parties:

(a) Assuming no outstanding Options are exercised and the Share Offer and the Option Offer are accepted in full:

    (i) the value of the Share Offer will be approximately HK$1,287,981,000; and

    (ii) the total amount to satisfy the cancellation of all outstanding Options will be approximately HK$5,097,470.

(b) Assuming all outstanding Options (other than those held by Mr. Zhu Xiaokun and Mr. Zhu Zefeng) are exercised in full and the Share Offer is accepted in full (including all Shares issued and allotted as a result of the exercise of the Options):

    (i) the value of the Share Offer will be approximately HK$1,322,106,300; and

    (ii) no amount will be payable by the Offeror under the Option Offer.

The Share Offer Price has been determined on a commercial basis after taking into account (i) the closing prices of the Shares traded on the Stock Exchange; and (ii) with reference to other voluntary general offers in Hong Kong in recent years.

Settlement of Consideration

Settlement of consideration in respect of acceptances of the Offers will be made as soon as possible but in any event within seven Business Days of the date of receipt by the Registrar of a complete and valid acceptance in respect of the Offers or of the Unconditional Date, whichever is the later.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder or Optionholder (as the case may be) who accepts the Share Offer or the Option Offer (as the case may be) will be rounded up to the nearest cent.

Financing for the Offers

The Offeror intends to finance the consideration payable by the Offeror under the Offers partially by deposit available at Agricultural Bank of China Ltd, Hong Kong Branch and partially from external financing granted by ABCI Securities Company Limited to the Offeror. As security for the external financing granted by ABCI Securities Company Limited to the Offeror, each of THCL, SPHK and the Offeror has provided the Share Charges in favour of ABCI Securities Company Limited and Mr. Zhu Zefeng has provided the Share Mortgage and the Assignment of Shareholder Loan in favour of ABCI Securities Company Limited. The Offeror does not intend that the payment of interest on, repayment of or security for the external financing (contingent or otherwise) will depend to any significant extent on the business of the Company.

ABCI has been appointed as the financial adviser to the Offeror in respect of the Offers. ABCI is satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy full acceptance of the Offers.

Others

Save as disclosed in the sections headed "The Share Offer" and "The Option Offer" in this "Letter from ABCI", there are no other outstanding Shares, Options, warrants, derivatives or other securities that are convertible or exchangeable into Shares or other types of securities in the Company.

5. CONDITIONS TO THE OFFERS

The Share Offer is subject to the following Conditions:

(a) valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Offeror and persons acting in concert with it holding at least 50% of the voting rights in the Company;

(b) the Shares remaining listed and traded on the Stock Exchange up to the Closing Date (or, if earlier, the Unconditional Date) save for any temporary suspension(s) of trading of the Shares as a result of the Offers and no indication being received on or before the Closing Date (or, if earlier, the Unconditional Date) from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn, other than as a result of either of the Offers or anything done or caused by or on behalf of the Offeror or its Concert Parties;

(c) no event having occurred which would make the Offers or the acquisition of any of the Shares under the Share Offer void, unenforceable, illegal or prohibit the implementation of the Offers; and

(d) no Relevant Authority(ies) in the PRC, Hong Kong, the Cayman Islands and the British Virgin Islands having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted or made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Offers or the acquisition of any of the Shares under the Offers void, unenforceable or illegal or prohibit the implementation of, or which would impose any material conditions, limitations or obligations with respect to, the Offers or the transactions contemplated under the Irrevocable Undertaking (other than such items or events above as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Offers).

Waiver of Conditions

The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions set out above in the section headed "Conditions to the Share Offer" of this letter save that Conditions (a) and (c) cannot be waived. The Offeror understands that it does not require approval from any Relevant Authority as a condition to the making of the Offers.

Invoking Conditions

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror should not invoke any of the Conditions so as to cause the Offers to lapse unless the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Offers.

Condition of the Option Offer

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Share Offer Becoming Unconditional

In accordance with Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Share Offer becomes or is declared unconditional as to acceptances and when the Share Offer becomes or is declared unconditional in all respects.

The Offers must also remain open for acceptance for at least fourteen (14) days after the Offers become unconditional. Shareholders and Optionholders are reminded that the Offeror does not have any obligation to keep the Offers open for acceptance beyond this minimum 14-day period.

WARNING: Shareholders, Optionholders and potential investors should be aware that the Share Offer is subject to the satisfaction or waiver (where applicable) of the Conditions, and the Option Offer is subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects. Accordingly, the Offers may or may not become unconditional. Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in the Shares, exercising the Options or other rights in respect of any of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

6. REASONS FOR AND BENEFITS OF THE SHARE OFFER

The Share Offer allows Mr. Zhu Zefeng to increase his direct investment in the Company via the Offeror and becomes a substantial shareholder of the Company.

The Offeror takes the view that the trading price and trading volume of the Shares have not been satisfactory. As set out in the section headed "The Share Offer — The Share Offer Price" of the "Letter from ABCI" in this Composite Document, during the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.97 on 17 March 2017, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.63 on 25 and 26 May 2017. The average closing price for the 90 trading days up to and including the Last Trading Date was approximately HK$0.756 per Share. The average daily trading volume of the Shares for the 6-months period, 12-month period and for the 24-month period up to and including the Last Trading Date were approximately 2.26 million Shares, 2.59 million Shares and 2.97 million Shares per day, representing only approximately 0.10%, 0.12% and 0.13% respectively of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to divest scalable on-market disposals without adversely affecting the price of the Shares.

As such, the Share Offer presents an immediate opportunity for Independent Shareholders to realise their investments in the Shares for cash and redeploy the cash received from accepting the Share Offer into other investment opportunities.

7. MAINTAINING THE LISTING/PUBLIC FLOAT

The Stock Exchange has stated that if, at the close of the Share Offer, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Offeror has no intention to privatize the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist in the Shares after the close of the Offers.

8. INFORMATION OF THE OFFEROR

Incorporation

The Offeror was incorporated on 2 June 2017 in the Cayman Islands. It was set up by Mr. Zhu Zefeng, the chief investment officer of the Group. Mr. Zhu Zefeng, aged 35, joined the Group in January 2016 and was appointed the chief investment officer of the Group in January 2017. He is responsible for screening and recommending investment opportunities to the board of directors of the Company, including the expansion opportunities to the emerging New Material* industry. He is also responsible for the post-investment integration process. Mr. Zhu has spear-headed various strategic downstream investment of the Group as well as the further expansion of distribution network to cover the rest of the market, including Southern China, South America and South East Asia. Prior to joining the Group, he worked for a Canadian cutting tool manufacturer & distributor for machining ferrous, non-ferrous, composite, fiberglass, and carbon fiber materials, as an operation manager, with over 7 years of experience in overlooking and integration of upstream and downstream operation of its special steel business. Mr. Zhu Zefeng is a holder of Options exercisable into 500,000 Shares.

* *New Material is defined in the "Twelfth Five-Year Plan for National Economic and Social Development of the People's Republic of China", as new materials with excellent performance and special features, or modified traditional materials with significantly improvement in the performance and equipped with new function. The Group's titanium and titanium alloy products are included as "New Material" under this definition.*

Mr. Zhu Zefeng is the son of Mr. Zhu Xiaokun, the chairman of the Company (who is beneficially interested in 1,600,000 and deemed interested in 787,390,000 Shares, representing approximately 35.467% of the total issued share capital of the Company, through his interests in THCL and SPHK and a holder of Options exercisable into 2,700,000 Shares) and the controlling shareholder of the Company.

Mr. Zhu Zefeng, Mr. Zhu Xiaokun, Ms. Yu Yumei, THCL and SPHK are Concert Parties of the Offeror, together hold 788,990,000 Shares, representing approximately 35.539% of the total issued share capital of the Company. Assuming the Share Offer becomes unconditional in all respects, the Offeror will be a substantial shareholder of the Company upon close of the Offers.

The Offeror has not carried out any business since incorporation, other than matters in connection with the Offers.

The Offeror will not engage in any business other than holding the Shares.

9. SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below are the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) the maximum shareholding of the Offeror as at Closing Date (assuming no outstanding Option have been exercised and the Company maintains a public float of 25%) and (iii) the maximum shareholding of the Offeror as at Closing Date (assuming all Options (other than those held by Mr. Zhu Xiaokun and Mr. Zhu Zefeng) exercised and the Company maintains a public float of 25%):

	As at the Latest Practicable Date		**As at Closing Date (assuming no Options exercised and the Company maintains a public float of 25%)**		**As at Closing Date (assuming all Options (other than those held by Mr. Zhu Zefeng and Mr. Zhu Xiaokun) exercised and the Company maintains a public float of 25%)**	
	Shares	*%*	*Shares*	*%*	*Shares*	*%*
Offeror	0	0.000	876,070,000	39.461	904,507,750	40.058
Concert Parties						
Mr. Zhu Zefeng[(1)]	0	0.000	0	0.000	0	0.000
THCL[(2)]	743,458,000	33.488	743,458,000	33.488	743,458,000	32.918
SPHK[(3)]	43,932,000	1.979	43,932,000	1.979	43,932,000	1.945
Mr. Zhu Xiaokun[(4)]	1,600,000	0.072	1,600,000	0.072	1,600,000	0.071
Ms. Yu Yumei[(2)]	0	0.000	0	0.000	0	0.000
Aggregate number of Shares held by Offeror and Concert Parties	788,990,000	35.539	1,665,060,000	75.000	1,693,497,750	75.000
Other Directors of the Company [(5)]	0	0.000	0	0.000	0	0.000
Other Shareholders	1,431,090,000	64.461	555,020,000	25.000	564,499,250	25.000
Total	2,220,080,000	100.000	2,220,080,000	100.000	2,257,997,000	100.000

Notes:

(1) Mr. Zhu Zefeng, the sole shareholder of the Offeror, holds Options granted under the Old Share Option Scheme exercisable into 500,000 Shares at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

(2) THCL is beneficially owned as to 89.02% and 10.98% by Mr. Zhu Xiaokun and Ms. Yu Yumei, respectively. Mr. Zhu Xiaokun and Ms. Yu Yumei are parents of Mr. Zhu Zefeng. THCL's shareholding set out in this table does not include the 50,000,000 Shares which THCL lent to an independent third party in December 2013, which were due but have not been returned.

(3) SPHK is wholly and beneficially owned by Mr. Zhu Xiaokun.

(4) Mr. Zhu Xiaokun holds Options granted under the Old Share Option Scheme exercisable into 2,700,000 Shares, of which Options for 500,000 Shares are at an exercise price of HK$1.78 with an exercise period expiring on 18 August 2019 and Options for 2,200,000 Shares are at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

(5) Other Directors of the Company hold Options granted under the Old Share Option Scheme exercisable into a total of 3,067,000 Shares, of which Options for 1,467,000 Shares are at an exercise price of HK$1.78 with an exercise period expiring on 18 August 2019 and Options for 1,600,000 Shares are at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

10. INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares have been listed on the main board of the Stock Exchange since 26 July 2007. The Group is principally engaged in the production and sales of die steel, high speed steel, cutting tools and titanium alloy.

11. INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

The Offeror intends that the Group will continue to operate its business in substantially its current state. Upon close of the Offers, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating a sustainable business plan or strategy for the Group's long term development. Subject to the results of the review, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

Notwithstanding the above, as at the Latest Practicable Date, no investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group, and the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

The Board will cooperate with and provide support to the Offeror as regards the Offeror's intention regarding the Group and will continue to act in the best interests of the Group and the Shareholders as a whole.

12. PROPOSED CHANGES TO THE COMPOSITION OF THE BOARD AND THE COMPANY'S MANAGEMENT TEAM POST-COMPLETION

As at the Latest Practicable Date, the Offeror has not decided on the future composition of the Board. Any changes to the Board will be made in compliance with the Takeovers Code, the Listing Rules and the articles of association of the Company and further announcement will be made by the Company as and when appropriate.

13. GENERAL MATTERS RELATING TO THE OFFERS

Further Terms of the Offers

In addition to the Conditions set out in this letter, the Share Offer is made on the basis that acceptance of the Share Offer by any person will constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Share Offer are sold by such person or persons free from all third party rights, liens, charges, equities, adverse interests and encumbrances whatsoever and together with all rights attaching thereto as at the Closing Date or subsequently becoming attached to them, including the right to receive all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the Closing Date. In addition, the Option Offer will be subject to and conditional upon the Share Offer becoming or being declared unconditional in all respects.

The Offers will be made in compliance with the Takeovers Code which is administered by the Executive. Sellers' ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Accepting Shareholder at the rate of HK$1.00 for every HK$1,000 or part thereof of the consideration payable by the Offeror for such person's Shares and will be deducted from the cash amount due to such Accepting Shareholder. The Offeror will pay the buyer's ad valorem stamp duty in relation to the Share Offer on its own behalf. No stamp duty is payable in connection with the Option Offer.

Availability of the Offers

The Offeror intends to make the Share Offer and Option Offer available to all Independent Shareholders and Independent Optionholders, respectively, including those who are not resident in Hong Kong. The availability of the Share Offer and Option Offer to persons who are not resident in Hong Kong may be affected by the laws of the relevant overseas jurisdictions. Persons who are not resident in Hong Kong should inform themselves about and observe any applicable requirements and restrictions in their own jurisdictions, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with the other necessary formalities and the payment of any issue, transfer or other fares due in such jurisdiction.

The Share Offer will be made for the securities of a Cayman Islands company and is subject to Hong Kong disclosure and other procedural requirements, which are different from those of the United States securities laws. In addition, US holders of the Shares should be aware that this Composite Document has been prepared in accordance with Hong Kong format and style, which differs from United States format and style. The Share Offer will be extended into the United States pursuant to the applicable US tender offer rules or certain available exemption therefrom and otherwise in accordance with the requirements of the SFO. Accordingly, the Share Offer will comply with the relevant Hong Kong disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, which differ from those applicable under US tender offer procedures and law.

The receipt of cash pursuant to the Share Offer by a US holder of Shares may be a taxable transaction for US federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each US holder of Shares is urged to consult his independent professional adviser immediately regarding the tax consequences of acceptance of the Share Offer.

The financial information of the Group included in this Composite Document has been extracted from the audited financial statements of the Group for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and unaudited financial statements of the Group for the six months ended 30 June 2017 which have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. Such financial information may not be wholly comparable to financial information of US companies or companies whose financial statements are solely prepared in accordance with Generally Accepted Accounting Principles in the United States.

It may be difficult for US holders of Shares to enforce their rights and claims arising out of the US federal securities laws, since the Offeror and the Company are located in a country other than the United States, and some or all of its officers and directors may be residents of a country other than the United States. In addition, most of the assets of the Offeror and the Group are located outside the United States. US holders of Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the securities laws of the United States. Further, it may be difficult for US holders of Shares to effect service of process within the United States upon the Offeror or the Company or their respective officers or directors or to enforce against them a judgment of a US Court predicated upon the federal or state securities laws of the United States.

In accordance with the normal Hong Kong practice and pursuant to Rule 14(e)-5(b) of the US Exchange Act, the Offeror hereby discloses that it or its affiliates or its nominees, or their respective brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, other than pursuant to the Share Offer, before or during the period in which the Share Offer remains open for acceptance. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices provided that (i) any such purchase or arrangement complies with applicable law and is made outside the United States, and (ii) the Share Offer Price is increased to match any consideration paid in any such purchase or arrangement, if such consideration is higher than the Share Offer Price, if any. Any information about such purchases will be reported to the SFC and will be available on the SFC website at http://www.sfc.hk/.

The Offeror will comply with the requirements of the Takeovers Code in respect of overseas Shareholders and overseas Optionholders.

Further agreements or arrangements

As at the Latest Practicable Date:

(a) the Offeror and its Concert Parties have not received any irrevocable commitment to accept or reject the Offers;

(b) save as disclosed in the section headed "Shareholding Structure of the Company" in this letter, the Offeror and its Concert Parties do not owns or has control or direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives of the Company;

(c) there is no outstanding derivative in respect of the securities in the Company which has been entered into by the Offeror or any of its Concert Parties;

(d) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company and which might be material to the Offers;

(e) there is no agreement or arrangement to which the Offeror or its Concert Parties is a party which relates to circumstances in which the Offeror may or may not invoke or seek to invoke a Condition to the Offers;

(f) save for the lending of an aggregate of 50,000,000 Shares, representing approximately 2.252% of the total issued share capital of the Company, by THCL to an independent third party on 9 December 2013 which THCL has no knowledge as to whether they have been on-lent or sold and which return was due, there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or its Concert Parties have borrowed or lent; and

(g) none of the Offeror, Mr. Zhu Zegfeng, Mr. Zhu Xiaokun, Ms. Yu Yumei and their respective Concert Parties has dealt in the Shares, options, derivatives, warrants or other securities convertible into Shares during the six-month period prior to the date of the Announcement up to the Latest Practicable Date.

Close of the Offers

The latest time on which the Offeror can declare the Share Offer unconditional as to acceptances is 7:00 p.m. on the 60th day after the posting of the Composite Document (or such later date to which the Executive may consent).

If all the Conditions are satisfied (or, if permissible, waived), Shareholders and Optionholders will be notified by way of an announcement in accordance with the Takeovers Code and the Listing Rules as soon as practicable thereafter.

Acceptance of the Offers

Acceptance of the Share Offer or the Option Offer by Independent Shareholders or Independent Optionholders, respectively, will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Share Offer or Options tendered under the Option Offer (as the case may be) are sold or tendered by the Independent Shareholders or Independent Optionholders (as the case may be) free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the Closing Date or subsequently becoming attached to it, including, without limitation, in the case of the Shares, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Closing date.

Additional information

Your attention is drawn to the "Letter from the Board" on pages 21 to 26 of this Composite Document, the "Letter from the Independent Board Committee" on pages 27 to 28 of this Composite Document and the "Letter from Optima Capital" on pages 29 to 52 of this Composite Document in relation to their respective recommendations and advice with respect to the Offers.

Your attention is also drawn to the additional information set out in the Appendices to this Composite Document, all of which form part of this Composite Document.

Yours faithfully,
For and on behalf of
ABCI Capital Limited

Kevin Ma
Head of Investment Banking
Managing Director

Marco Wong
Director

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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 826)

Executive directors:
ZHU Xiaokun *(Chairman)*
WU Suojun *(Chief Executive Officer)*
YAN Ronghua
JIANG Guangqing

Independent non-executive directors:
GAO Xiang
LEE Cheuk Yin, Dannis
WANG Xuesong

Registered office in the Cayman Islands:
P.O. Box 309
G.T. Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

Registered office in Hong Kong:
Unit 1303, 13/F, Jubilee Centre
18 Fenwick Street, Wanchai
Hong Kong

Principal place of business:
Danbei Town, Zhenjiang City
Jiangsu Province, The PRC

27 October 2017

To Independent Shareholders and Independent Optionholders

Dear Sir or Madam,

CONDITIONAL VOLUNTARY GENERAL OFFERS BY ABCI CAPITAL LIMITED ON BEHALF OF SKY GREENFIELD INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES OF TIANGONG INTERNATIONAL COMPANY LIMITED AND FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF TIANGONG INTERNATIONAL COMPANY LIMITED

* *For identification purposes only*

1. INTRODUCTION

Reference is made to the Announcement pursuant to which the Offeror and the Company jointly announced on 14 September 2017 that ABCI would, on behalf of the Offeror, make the following voluntary conditional cash offers:

(i) The Share Offer: to acquire all of the outstanding Shares in the issued share capital of the Company (other than those already owned by the Offeror and its Concert Parties) at HK$0.90 per Share; and

(ii) The Option Offer: to cancel all of the outstanding Options of the Company at HK$0.01 per Option with exercise price at HK$1.78 per Option and HK$0.03 per Option with exercise price at HK$0.60 per Option.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Offeror and the intentions of the Offeror in relation to the Group. Further details on the terms of the Offers are set out in this letter, Appendix I — "Further Terms of the Offers" to this Composite Document and in the accompanying Forms of Acceptance.

The purpose of this Composite Document is to provide you with, among other things: (i) information relating to the Group, the Offeror and the Offers; (ii) a letter from ABCI containing, among other things, details of the Offers; (iii) a letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and Independent Optionholders in relation to the Offers; and (iv) a letter from Optima Capital containing its advice to the Independent Board Committee in relation to the Offers.

2. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee of the Company, which comprises all of the independent non-executive directors of the Company, has been established by Board to make a recommendation to the Independent Shareholders as to whether the Share Offer is, or is not, fair and reasonable and as to acceptance and to the Independent Optionholders as to its views on the Option Offer. As at the date of this letter, independent non-executive directors of the Company are Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong, the executive directors are Mr. Zhu Xiaokun, Mr. Wu Suojun, Mr. Jiang Guangqing and Mr. Yan Ronghua. Mr. Zhu Xiaokun, the chairman of the Company and an executive director interested and deemed to be interested in 35.539% of the issued share capital of the Company, is a Concert Party to the Offeror and will not express his views on the Offers. Each of the other executive Directors, namely, Mr. Wu Suojun, Mr. Yan Ronghua and Mr. Jiang Guangqing held Options exercisable into 1,667,000 Shares, 800,000 Shares and 600,000 Shares, respectively, which are subject to the Option Offer, and will not express their views on the Offers. The Independent Board Committee excludes all Directors who are ordinarily not counted as independent directors of the Company. In forming the

Independent Board Committee comprising all of the independent non-executive directors, the Company wishes to ensure that Independent Shareholders will be advised by a committee of independent directors.

In addition, as approved by the Independent Board Committee, an independent financial adviser, Optima Capital, has been appointed to advise the Independent Board Committee in connection with the Share Offer and the Option Offer.

3. THE SHARE OFFER

As at the Latest Practicable Date, there are 2,220,080,000 Shares in issue and outstanding Options in respect of 41,117,000 Shares. The Share Offer will be made by ABCI on behalf of the Offeror on the following basis:

The Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Share Offer Price

Comparisons of value

The Share Offer Price of HK$0.90 per Share:

(1) is equal to the closing price of HK$0.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(2) represents a premium of approximately 12.50% over the closing price of HK$0.800 per Share as quoted on the Stock Exchange on the Last Trading Date;

(3) represents a premium of approximately 11.66% over the average closing price of approximately HK$0.806 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;

(4) represents a premium of approximately 10.29% over the average closing price of approximately HK$0.816 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Date;

(5) represents a premium of approximately 8.43% over the average closing price of approximately HK$0.830 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(6) represents a premium of approximately 19.05% over the average closing price of approximately HK$0.756 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(7) represents a discount of approximately 55.51% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.023 as at 31 December 2016; and

(8) represents a discount of approximately 57.08% to the unaudited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.097 as at 30 June 2017.

For the purpose of item (7) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.89451 as at 31 December 2016 and for the purpose of item (8) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.86792 as at 30 June 2017.

Highest and Lowest Share Prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.97 on 17 March 2017 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.63 on 25 May 2017 and 26 May 2017, respectively.

4. THE OPTION OFFER

The respective exercise prices of the outstanding Options in respect of 41,117,000 Shares and the respective periods in which they are exercisable are set out below:

Exercise price *(HK$ per Share)*	Exercise period	Number of Outstanding Options as at the Latest Practicable Date
1.78	from 19 August 2014 to 18 August 2019	22,147,000
0.60	from 1 January 2017 to 31 December 2017	18,970,000

All Options were granted under the Old Share Option Scheme and are vested and exercisable. As at the Latest Practicable Date, there are no outstanding Share Options under the New Share Option Scheme.

Option Offer

Under the Option Offer, appropriate offers will be made by ABCI on behalf of the Offeror to Independent Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options (whether vested or not) in exchange for cash:

(A) In respect of Options with an exercise price of HK$1.78:

For cancellation of each such Option . . . . HK$0.01 in cash

(B) In respect of Options with an exercise price of HK$0.60:

For cancellation of each such Option . . . . HK$0.03 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced on the Closing Date.

5. VALUE OF THE OFFERS

Your attention is drawn to the sections headed the "The Share Offer", the "The Option Offer" and "Value of the Offers" in the "Letter from ABCI" in this Composite Document which sets out the value of the Offers.

6. CONDITIONS TO THE SHARE OFFER

Your attention is drawn to the section headed "Conditions to the Share Offer" in the "Letter from ABCI" in this Composite Document which sets out the conditions to the Share Offer.

7. REASONS FOR AND BENEFITS OF THE SHARE OFFER

Your attention is drawn to the section headed "Reasons for and Benefits of the Share Offer" in the "Letter from ABCI" in this Composite Document.

8. INFORMATION ON AND INTENTION OF THE OFFEROR

Your attention is drawn to the sections headed "Information of the Offeror" and "Intentions of the Offeror in relation to the Group" in the "Letter from ABCI" in this Composite Document.

The Board notes that the Offeror does not intend to institute any major changes to the Company's current board composition, management team, business and operation (including redeployment of the fixed assets of the Group and employee changes within the Group).

9. INFORMATION ON THE GROUP

The Company is a company incorporated in the Cayman Islands with limited liability, whose Shares have been listed on the Main Board of the Stock Exchange since 26 July 2007. The Group is principally engaged in the production and sales of die steel, high speed steel, cutting tools and titanium alloy.

10. MAINTAINING THE LISTING/PUBLIC FLOAT

The Stock Exchange has stated that if, at the close of the Share Offer, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Board notes that, the Offeror has no intention to privatize the Company and intend the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist in the Shares after the close of the Offers.

11. RECOMMENDATION AND ADDITIONAL INFORMATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" on pages 27 to 28 of this Composite Document, which sets out its recommendations to the Independent Shareholders in relation to the Offers and (ii) the "Letter from Optima Capital" on pages 29 to 52 of this Composite Document, which sets out its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its recommendations.

You are also advised to read the "Letter from ABCI", the Appendices to this Composite Document and the Forms of Acceptances in respect of the terms and acceptance and settlement procedures of the Offers.

Independent Shareholders and Independent Optionholders are recommended to consult their own professional advisers as to the tax implications that may arise from accepting the Offers.

Yours faithfully,
By order of the board of
Tiangong International Company Limited
Zhu Xiaokun
Chairman

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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 826)

27 October 2017

To the Independent Shareholders and Independent Optionholders

To other Shareholders (for information only)

Dear Sir or Madam,

CONDITIONAL VOLUNTARY GENERAL OFFERS BY ABCI CAPITAL LIMITED ON BEHALF OF SKY GREENFIELD INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES OF TIANGONG INTERNATIONAL COMPANY LIMITED AND FOR THE CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF TIANGONG INTERNATIONAL COMPANY LIMITED

We refer to the Composite Document dated 27 October 2017 issued jointly by the Offeror and the Company of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Composite Document.

We have been appointed by the Board to consider the terms of the Offers and to advise you as to whether, in our opinion, (i) the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned and to make a recommendation as to acceptance; and (ii) the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned and to make a recommendation as to acceptance. We have declared that we are independent and do not have any conflict of interest in respect of the Offers and are therefore able to consider the terms of the Share Offer and to make recommendations to the Independent Shareholders and to express our views on the Option Offer to the Independent Optionholders.

Optima Capital has been appointed as the independent financial adviser to advise us in respect of the terms of the Offers.

* *For identification purposes only*

We draw your attention to the "Letter from ABCI" set out on pages 7 to 20 of the Composite Document which contains, *inter alia*, information about the Offers, and the "Letter from Optima Capital" set out on pages 29 to 52 of the Composite Document which contains details of its advice and the principal factors taken into consideration in arriving at its recommendations in respect of the Offers.

We also draw your attention to the "Letter from the Board" set out on pages 21 to 26 of the Composite Document and the additional information set out in the Composite Document, including the appendices to the Composite Document and the accompanying Forms of Acceptance in respect of the terms of the Offers and acceptance and settlement procedures for the Shares and the Options.

Having taken into account the advice of Optima Capital:

(a) we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned, and recommend the Independent Shareholders to accept the Share Offer; and

(b) we consider that the terms of the Option Offer are fair and reasonable so far as the Independent Optionholders are concerned, and recommend the Independent Optionholders to accept the Option Offer.

Notwithstanding our recommendations, the Independent Shareholders and the Independent Optionholders should consider carefully the terms and conditions of the Offers.

Yours faithfully,
The Independent Board Committee
Tiangong International Company Limited

Mr. GAO Xiang **Mr. LEE Cheuk Yin, Dannis** **Mr. WANG Xuesong**
Independent Non-executive Directors

The following is the letter of advice from Optima Capital to the Independent Board Committee which has been prepared for the purpose of inclusion in the Composite Document.

OPTIMA CAPITAL

Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

27 October 2017

To: the Independent Board Committee of
Tiangong International Company Limited

Dear Sirs,

CONDITIONAL VOLUNTARY GENERAL OFFERS BY ABCI CAPITAL LIMITED ON BEHALF OF SKY GREENFIELD INVESTMENT LIMITED FOR ALL THE OUTSTANDING SHARES IN AND FOR CANCELLATION OF ALL THE OUTSTANDING OPTIONS OF TIANGONG INTERNATIONAL COMPANY LIMITED

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offers. Details of the Offers are set out in the Composite Document jointly issued by the Offeror and the Company dated 27 October 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless otherwise specified herein.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong, who have no direct or indirect interest in the Offers has been established by the Company in accordance with Rule 2.1 of the Takeovers Code to make recommendation to the Independent Shareholders and Independent Optionholders as to whether the Offers are fair and reasonable and as to acceptance of the Offers. The Independent Board Committee has approved our appointment as the independent financial adviser to the Independent Board Committee in connection with the Offers. In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with independent advice as to whether the Offers are fair and reasonable and as to acceptance of the Offers.

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Offers. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have also sought and received confirmation from the executive Directors and management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion after the Latest Practicable Date and throughout the Offer Period.

In relation to the Offers, we have not considered the tax implications on the Independent Shareholders and the Independent Optionholders of the acceptance or non-acceptance of the Offers since these depend on their individual circumstances. In particular, the Independent Shareholders and the Independent Optionholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice with regard to the Offers, we have taken into account the following principal factors and reasons:

1. Terms and conditions of the Offers

1.1 The Share Offer

The Share Offer is being made by ABCI on behalf of the Offeror on the following basis:

(a) Shareholders accepting the Share Offer will receive the Share Offer Price of HK$0.90 in cash; and

(b) the Shares to be acquired under the Share Offer shall be fully paid and shall be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the Closing Date.

The Share Offer is subject to the satisfaction of the Conditions as described in the letter from ABCI contained in the Composite Document. In particular, the Share Offer is subject to valid acceptances of the Share Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) in respect of such number of Shares which will result in the Offeror and persons acting in concert with it holding at least 50% of the voting rights in the Company.

The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions save that the Conditions relating to minimum level of acceptances as described above and non-occurrence of event which would make the Offers or the acquisition of any of the Shares under the Share Offer void, unenforceable, illegal or prohibit the implementation of the Offers cannot be waived.

1.2 The Option Offer

ABCI is making the Option Offer on behalf of the Offeror to the Independent Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all the outstanding Options (whether vested or not) in exchange for cash on the following basis:

(a) In respect of Options with an exercise price of HK$1.78:

For cancellation of each such Option . . . . .HK$0.01 in cash

(b) In respect of Options with an exercise price of HK$0.60:

For cancellation of each such Option . . . . .HK$0.30 in cash

The Option Offer will be conditional upon the Share Offer becoming or being declared unconditional in all respects.

Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced on the Closing Date.

1.3 Further terms of the Offers

Further terms and conditions of the Offers, including the procedures for acceptance, are set out in the letter from ABCI, the letter from the Board contained in the Composite Document and in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance.

2. Information of the Group

2.1 Principal activities

The Group is based in Zhenjiang City, Jiangsu Province, the PRC and is principally engaged in the production and sale of die steel ("**DS**"), high speed steel ("**HSS**"), cutting tools and titanium alloy. Its products are sold in both domestic and overseas markets. Apart from the aforesaid core businesses, the Group is also engaged in the trading of normal carbon steel products.

Set out below is the revenue breakdown of the Group by business segment for each of the three financial years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017:

	For the year ended 31 December						For the six months ended 30 June	
	2014		**2015**		**2016**		**2017**	
	(RMB' million)	*%*	*(RMB' million)*	*%*	*(RMB' million)*	*%*	*(RMB' million)*	*%*
DS	1,660	36.6	1,018	29.7	1,262	37.5	786	41.9
HSS	1,081	23.8	679	19.8	395	11.7	306	16.3
Cutting tools	550	12.1	515	15.0	528	15.6	232	12.4
Titanium alloy	133	2.9	173	5.1	234	6.9	84	4.5
Trading of goods	1,111	24.6	1,045	30.4	956	28.3	468	24.9
Total	4,536	100.0	3,429	100.0	3,376	100.0	1,877	100.0

Note: *Due to rounding, numbers presented throughout the above table may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.*

DS

DS is manufactured with rare metals, namely molybdenum, chromium and vanadium, and is a type of high alloy specialised steel. DS is mainly used in die and mould casting for different manufacturing industries such as automotive, high-speed railway construction, aviation and plastic product manufacturing, as well as machining processing. Among the core businesses of the Group, this segment has made up the largest revenue contribution over the years. For the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, revenue from this segment accounted for approximately 36.6%, 29.7%, 37.5% and 41.9% of the Group's total revenue respectively.

HSS

HSS is manufactured with rare metals including tungsten, molybdenum, chromium and vanadium, and 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, internal-combustion engines and roll, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation, and electronics industries. The production processes for DS and HSS are similar.

Cutting tools

Cutting tools segment includes HSS and carbide cutting tools. The two main types of HSS cutting tools manufactured by the Group are twist drill bits and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tool production enables the Group to enjoy a significant cost advantage. The Group has also started the production of high-end carbide tools since 2016, which mainly comprised customised tools.

Titanium alloy

Titanium alloy is lighter, stronger and has higher corrosion resistance compared to aluminum alloy, with applications in aviation, marine engineering and the medical industries. Its production involves sponge titanium as well as various other rare metals. The production of titanium and titanium alloy is both capital and technology intensive. Thus, it is an industry with a high entry barrier. Revenue of the titanium alloy segment continued to grow since its introduction by the Group in 2012 and started to record export sales in 2016.

Trading of goods

This segment involves the purchase and sale of normal carbon steel products which are not within the Group's production capacity. Despite its contribution to revenue, the profitability of this segment is slim.

2.2 *Financial results*

Set out below are the audited consolidated financial results of the Group for the three years ended 31 December 2014, 2015 and 2016, and the unaudited consolidated financial results for the six months ended 30 June 2016 and 2017 as extracted from the relevant annual reports and interim reports of the Company:

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	RMB' million	*RMB' million*	*RMB' million*	*RMB' million*	*RMB' million*
Revenue	4,536	3,429	3,376	1,568	1,877
Cost of sales	(3,627)	(3,038)	(3,004)	(1,381)	(1,663)
Gross profit	909	391	372	187	214
Other income	27	19	76	7	6
Distribution expenses	(71)	(68)	(66)	(29)	(42)
Administrative expenses	(124)	(115)	(143)	(67)	(63)
Other expenses	(59)	(14)	(12)	(16)	(10)
Profit from operations	682	213	227	82	105
Finance income	9	9	9	6	3
Finance expenses	(151)	(149)	(113)	(60)	(59)
Net finance costs	(142)	(141)	(103)	(54)	(56)
Share of (losses)/profits of associates	(3)	6	8	4	(2)
Share of (losses)/profits of joint ventures	6	7	(1)	2	(1)
Profit before income tax	544	85	131	33	46
Income tax	(81)	(13)	(15)	(6)	(5)
Profit for the period	463	72	116	27	41
Attributable to:					
— Equity shareholders of the Company	463	73	111	26	39
— Non-controlling interests	(1)	(1)	5	1	2
	463	72	116	27	41

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
Gross profit margin	20.0%	11.4%	11.0%	11.9%	11.4%
Net profit margin	10.2%	2.1%	3.3%	1.7%	2.2%

Note: Due to rounding, numbers presented throughout the above table may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

*Financial year ended 31 December 2015 ("**FY2015**") versus financial year ended 31 December 2014 ("**FY2014**")*

In 2015, the slowdown of growth rate in gross domestic products and fixed assets investments had caused a slump in the steel consumption demand in the PRC. Meanwhile, the worsening of the excess capacity problem had intensified the imbalance between the supply and demand in the industry and exerted a downward price pressure on steel products. To cope with this situation, the PRC government devoted increasing efforts on removing the excess capacity and reducing the inventory level in the industry. Under such unfavorable business environment, the Group had recorded a drop in revenue by approximately RMB1,107 million or 24.4% from approximately RMB4,536 million for FY2014 to RMB3,429 million for FY2015 as a result of a decrease in domestic sales of the Group's major products (i.e. DS, HSS and cutting tools) by approximately RMB1,072 million caused by a general decline in domestic demand and selling prices for these products.

As the overseas market of the Group's DS, HSS and cutting tools products was also undergoing a recession, the Group experienced global price pressure in the export sales of these products. Despite such price pressure, with its prior efforts on expanding the overseas market, the Group was able to maintain the export sales of DS, HSS and cutting tools products at a level similar to that of the previous year. In addition, with the Group's commitment in offering a wider range of titanium and titanium alloys products, the Group had recorded a remarkable growth in revenue from the titanium alloy segment by approximately RMB41 million or 30.6% in FY2015.

Profit attributable to the equity shareholders of the Company decreased by approximately RMB391 million or 84.4% from approximately RMB463 million in FY2014 to RMB72 million in FY2015. Such decrease was principally due to the decrease in domestic sales of DS and HSS as mentioned above.

*Financial year ended 31 December 2016 ("**FY2016**") versus FY2015*

Revenue of the Group for FY2016 was approximately RMB3,376 million, representing a slight decrease of approximately 1.5% as compared with approximately RMB3,429 million for FY2015.

Revenue from domestic sales of DS increased by approximately 91.3% from approximately RMB334 in FY2015 to RMB639 million in FY2016 mainly because of the recovery in demand from domestic manufacturing industry which drove up the sales volume of the Group's DS products. However, the recovery of the overseas market was relatively slow, resulting in a decrease of approximately 8.9% in export revenue to approximately RMB624 million.

As the recession in global HSS market still persisted, the demand of HSS in both domestic and overseas markets was weak and the Group experienced price pressure globally. As a result, the domestic revenue and export revenue dropped by approximately 44.2% and 36.2% to approximately RMB263 million and RMB132 million respectively.

In view of the severe competition in the domestic cutting tools market, the Group sold its products at a more competitive price to stimulate sales volume and recorded an increase in domestic revenue of approximately 8.3% to approximately RMB202 million. The Group's export sales of cutting tools remained relatively stable. Export revenue only dropped slightly by approximately 0.8% to approximately RMB326 million.

The titanium alloy segment continued to grow rapidly during the year. Revenue of the segment recorded a significant increase of approximately 35.1% to RMB234 million, which was mainly attributable to the increase in sales volume. The Group also recorded its first export sales in the amount of approximately RMB0.5 million during the year.

Notwithstanding the slight decrease in total revenue, the Group managed to record an increase in profit attributable to the equity shareholders of the Company from approximately RMB73 million in FY2015 to RMB111 million in FY2016. Such increase was primarily due to (i) the increase in other income of approximately RMB57 million relating to increase in grants of approximately RMB29 million from the PRC government to the Group to reward its contribution to the local economy and encourage technology innovation, and the reversal of impairment loss on trade receivables of approximately RMB39 million; (ii) the decrease in finance costs of approximately RMB36 million after the repayment of bank loans; partially offset by (iii) the increase in administrative expenses of approximately RMB28 million resulting from the increase in staff costs incurred for incentivising the employees during the year.

*Six months ended 30 June 2017 ("**1H2017**") versus six months ended 30 June 2016 ("**1H2016**")*

In 2017, the domestic market for steel products had experienced a moderate recovery. Driven by an upward pricing trend in rare metals which the Group uses as raw materials, the average selling prices of DS and HSS products generally increased. In addition, the Group's strategic plan to penetrate the eastern and southern China markets coupled with the efforts of the government on removing excess capacity in the industry had enabled the Group to capture additional market share and acquire stronger bargaining power to price its products. As a result of the rebound of sales volume and increase in selling prices of the DS and HSS products, the domestic revenue from DS and HSS increased by approximately RMB275 million which led to an overall increase in revenue of the Group by approximately RMB309 million or 19.7% from approximately RMB1,568 million in 1H2016 to approximately RMB1,877 million in 1H2017.

Demand for DS products in the overseas market was relatively stable. As a result of the increase in average selling prices of the Group's DS products, an increase in export revenue of approximately RMB47 million or 15.1% to approximately RMB358 million was recorded. With an increase in number of customers, export revenue of HSS products also increased by approximately RMB29 million or 42.4% to approximately RMB97 million.

With the Group's competitive pricing strategy and the stable development of various manufacturing industries such as automobile and shipbuilding industries, domestic revenue from sale of cutting tools increased by approximately 28.3% to approximately RMB110 million. For overseas market, due to the shift of demand from HSS cutting tools to carbide tools, the Group commenced the production of high-end carbide tools in 2016. During this transitional period, the Group's export sales was affected, resulting in a decrease in export revenue by approximately 19.5% to approximately RMB122 million.

The Group adjusted its pricing strategy to price its titanium alloy products at a more profitable level. As a result of the adjustment, sales volume decreased and domestic revenue fell by approximately 16.8% to approximately RMB82 million. For overseas market, the Group started to export titanium alloy in the second half of 2016 and recorded export sales of approximately RMB2 million.

Profit attributable to the equity shareholders of the Company increased by approximately 50.0% from approximately RMB26 million in 1H2016 to approximately RMB39 million in 1H2017. The increase was mainly attributable to the rebound of sales volume and increase in average selling prices of the Group's DS and HSS products as explained above.

2.3 Financial position

Set out below is a summary of the financial position of the Group as at 31 December 2016 and 30 June 2017 as set out in the annual report and interim report of the Company:

	31 December 2016 *RMB' million* (audited)	**30 June 2017** *RMB' million* (unaudited)
Non-current assets		
Property, plant and equipment	3,444	3,411
Lease prepayments	73	72
Goodwill	22	22
Interests in associates	46	50
Interest in joint ventures	25	25
Other financial assets	96	93
Deferred tax assets	30	34
	3,737	3,707
Current assets		
Trading securities	—	2
Inventories	1,902	1,999
Trade and other receivables	1,577	1,835
Pledged deposits	180	201
Time deposits	640	450
Cash and cash equivalents	260	295
	4,559	4,782
Current liabilities		
Interest-bearing borrowings	2,679	2,573
Trade and other payables	1,145	1,215
Current taxation	2	—
Deferred income	6	6
	3,831	3,795
Non-current liabilities		
Interest-bearing borrowings	210	417
Deferred income	44	40
Deferred tax liabilities	55	57
	309	514
Total equity attributable to equity shareholders of the Company	4,018	4,041
Non-controlling interests	138	139
Total Equity	4,155	4,180

Note: Due to rounding, numbers presented throughout the above table may not add up precisely to the totals provided.

As at 31 December 2016

As at 31 December 2016, the total assets of the Group amounted to approximately RMB8,296 million, which comprised principally (i) property, plant and equipment of approximately RMB3,444 million; (ii) inventories of approximately RMB1,902 million; (iii) trade and other receivables of approximately RMB1,577 million; and (iv) pledged deposits, time deposits and cash and cash equivalents of approximately RMB1,080 million.

Property, plant and equipment comprised principally plant and buildings of approximately RMB721 million, machinery of approximately RMB2,170 million and construction in progress related to plant, buildings and machinery of approximately RMB542 million. Inventories comprised principally (i) raw materials of approximately RMB35 million; (ii) work in progress of approximately RMB910 million; and (iii) finished goods of approximately RMB957 million.

Trade and other receivables amounted to approximately RMB1,577 million, of which approximately RMB1,368 million were trade and bills receivables (net of provision for doubtful debts of approximately RMB37 million). Customers are normally granted credit terms of 90 to 180 days depending on the creditworthiness of individual customers. Among the net trade and bills receivables, approximately RMB105 million had been outstanding for over six months. The table below sets out our analysis of the average collection day of the Group's trade and bills receivables for the three financial years ended 31 December 2014, 2015 and 2016:

	2014	**2015**	**2016**
Revenue for the year ended 31 December *(RMB' million)*	4,536	3,429	3,376
Outstanding amount of net trade and bills receivables as at 31 December *(RMB' million)*	1,986	1,670	1,368
Trade and bills receivables turnover ratio *(Note 1)*	2.64	1.88	2.22
Trade and bills receivables collection day *(Note 2)*	138	195	164

Notes:

1. *Trade and bills receivables turnover ratio is calculated by dividing revenue by the average balance of net trade and bills receivables of the year (i.e. average of the beginning balance and the closing balance).*

2. *Trade and bills receivables collection day is calculated by dividing 365 days by the net trade and bills receivables turnover ratio.*

As shown in the table above, the average trade and bills receivables collection day for the year ended 31 December 2014, 2015 and 2016 were 138 days, 195 days and 164 days respectively. After having discussed with the executive Directors and management of the Company, we understand that the increase in the receivable collection days in FY2015 was mainly due to the delay of certain customers in settling their trade balances under the worsening domestic business environment. In order to expedite the recovery of receivables, the Group had strengthened its credit control in approving sales and implemented tighter debt collection policy during FY2016, resulting in a decrease in the receivable collection days.

Total liabilities of the Group as at 31 December 2016 amounted to approximately RMB4,140 million, which comprised principally (i) interest-bearing borrowings of approximately RMB2,889 million; and (ii) trade and other payables of approximately RMB1,145 million. Out of the total borrowings, approximately RMB2,679 million were repayable within one year.

As at 30 June 2017

Plant and buildings of the Group increased from approximately RMB721 million to approximately RMB738 million as at 30 June 2017. Total assets of the Group as at 30 June 2017 increased by approximately RMB193 million from approximately RMB8,296 million as at 31 December 2016 to approximately RMB8,489 million as at 30 June 2017. Such increase was mainly attributable to the increase in trade and other receivables of approximately RMB258 million driven by the growth in sales in 1H2017 as mentioned above and the increase in inventory of approximately RMB97 million in anticipation of the growth in sales following the recovery in domestic demand and increase in penetration into the eastern and southern market, partially offset by the decrease in cash and cash equivalents of approximately RMB134 million which had been used for funding the capital expenditures incurred for the increase in production.

Total liabilities of the Group as at 30 June 2017 increased to approximately RMB4,309 million from RMB4,140 million as at 31 December 2016, which was mainly due to the drawdown of a new bank loan in June 2017 to refinance an existing bank loan due in July 2017.

3. Prospects of the Group

Since the Group mainly derived its sales in the PRC, the future business of the Group is largely dependent on the balance of demand and supply for specialised steel products and the national reform policies implemented in the PRC steel industry. As mentioned in the paragraph headed "Financial results" under the section headed "Information of the Group" above, the imbalance of demand and supply caused by excess capacity in the industry had adversely affected the business of the Group in the past years. To address such issue, the PRC government has taken measures to remove excess production capacity in the steel industry since 2013. Under such reform environment, many of the low-end steel manufacturers have been squeezed out of the market and other manufacturers which failed to maintain its profitability have decided to suspend operations. The PRC government further issued an opinion relating to the future development of the steel industry in early 2016, emphasising that it would continue to remove excess production capacity and encourage market participants to advance its technologies to meet the enhanced standards in the industry. Benefiting from the removal of the low-end manufacturers and the suspension of operations of certain manufacturers as a result of the policy reform, the Group was able to capture additional market share.

Based on our discussions with the executive Directors and management of the Company, we understand that to cope with government measures and to ensure that production is in compliance with the requirements, the Group has continued to enhance the standards of its production by strengthening the control on wastes emission and conducting safety inspections on the operational environment. Over the past years, the Group has also focused on advancing the technologies in cutting tool products and developing new products such as titanium composite plate. In 2016, the Group established a new research centre in Jurong City, Jiangsu Province. Such centre is expected to be put into full operation by the end of 2017. The Group intends to conduct research projects in the new centre in cooperation with various research institutes with respect to the development of certain "New Materials" which are specified in the "13th Five-Year Plan for National Economic and Social Development of the People's Republic of China" issued by the National Development and Reform Commission of the PRC and "China Manufacturing 2025" issued by the State Council of the PRC. "New Material" is defined in the "12th Five-Year Plan for National Economic and Social Development of the People's Republic of China" as new materials with excellent performance and special features, or modified traditional materials with significant improvement in the performance and equipped with new function. The Group's titanium and titanium alloy products are included as "New Material" under this definition.

Apart from being affected by the demand and supply and the government policies implemented in the PRC steel industry as mentioned above, the business of the Group is also sensitive to the fluctuations in prices of rare metals as the pricing of the specialised steel products is normally set on a cost-plus basis based on the costs of rare metals which the Group uses as raw materials. To pass on the procurement costs of the raw materials to customers and increase the profitability of the sales, it is the plan of the Group to continue strengthening its pricing power by positioning itself in the high-end manufacturing and increasing penetration in the eastern and southern PRC market. For the purpose of strengthening the sales presence, the Group has established distribution channels with several distributors to distribute its products in the eastern and southern PRC market.

For overseas market, the Group seeks to improve profit margin by expanding its direct reach to end customers. For new product development, the Group has recently acquired new production line for the production of thin metal plates, which is applicable to the existing DS, HSS and titanium alloy products. For the titanium alloy segment, the Group would continue to place prime focus on the development of steel-titanium composite plate in the ocean-related industry.

Despite the Group has continued to enhance its production facilities and sought for means to strengthen its pricing power, the specialised steel industry in the PRC is to a certain extent policy driven and the competition within the industry is severe. As such, we consider there remain uncertainties about the Group's prospects, particularly whether the Group is able to cope with the changes in government policies from time to time, maintain its competitiveness and pass on the costs to customers when the rare metal prices fluctuate.

4. Information on the Offeror and intentions of the Offeror

Based on the information disclosed in the letter from ABCI contained in the Composite Document, the Offeror was set up by Mr. Zhu Zefeng for the sole purpose of making the Offers and holding the Shares and has not carried out any business activities other than making the Offers. Mr. Zhu Zefeng, aged 35, joined the Group in January 2016 and was appointed the chief investment officer of the Group in January 2017. He is responsible for screening and recommending investment opportunities to the board of directors of the Company, including the expansion opportunities to the emerging "New Material" industry. He is also responsible for the post-investment integration process. He has spear-headed various strategic downstream investment of the Group as well as the further expansion of distribution network to cover the rest of the market, including Southern China, South America and South East Asia. Prior to joining the Group, he worked for a Canadian cutting tool manufacturer and distributor for machining ferrous, non-ferrous, composite, fiberglass and carbon fiber materials as an operation manager, with over 7 years of experience in overlooking and integration of upstream and downstream operation of its specialised steel business. Mr. Zhu Zefeng holds Options which are exercisable into 500,000 Shares. Mr. Zhu Xiaokun, the chairman of the Company who is beneficially interested in 1,600,000 Shares and deemed interested in 787,390,000 Shares, representing approximately 35.467% of the total issued share capital of the Company, through his interests in THCL and SPHK and a holder of Options exercisable into 2,700,000 Shares and the controlling shareholder of the Company, is the father of Mr. Zhu Zefeng. Mr. Zhu Zefeng, Mr. Zhu Xiaokun, Ms. Yu Yumei, THCL and SPHK are Concert Parties of the Offeror and together hold 788,990,000 Shares, representing approximately 35.539% of the total issued share capital of the Company.

The Offeror intends that the Group will continue to operate its business in substantially its current state. Upon close of the Offers, the Offeror will conduct a detailed review of the business operations and financial position of the Group for the purpose of formulating a sustainable business plan or strategy for the Group's long term development. Subject to the results of the review, the Offeror may explore other business opportunities and consider whether any asset disposals, asset acquisitions, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance long-term growth potential of the Company.

Notwithstanding the above, as at the Latest Practicable Date, no investment or business opportunity has been identified nor has the Offeror entered into any agreement, arrangements, understandings or negotiation in relation to the injection of any assets or business into the Group, and the Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business.

As at the Latest Practicable Date, the Offeror has not decided on the future composition of the Board. Any changes to the Board will be made in compliance with the Takeovers Code, the Listing Rules and the articles of association of the Company and further announcement will be made by the Company as and when appropriate.

5. Evaluation of the Share Offer Price

5.1 Comparison with historical Share prices

The Share Offer Price of HK$0.90 per Share:

(i) is equal to the closing price of HK$0.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) represents a premium of approximately 12.50% over the closing price of HK$0.800 per Share as quoted on the Stock Exchange on the Last Trading Date;

(iii) represents a premium of approximately 11.66% over the average closing price of approximately HK$0.806 per Share based on the daily closing prices as quoted on the Stock Exchange for the five trading days up to and including 11 September 2017 (the "**Last Trading Day**");

(iv) represents a premium of approximately 10.29% over the average closing price of approximately HK$0.816 per Share based on the daily closing prices as quoted on the Stock Exchange for the ten trading days up to and including the Last Trading Day;

(v) represents a premium of approximately 8.43% over the average closing price of approximately HK$0.830 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(vi) represents a premium of approximately 19.05% over the average closing price of approximately HK$0.756 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(vii) represents a discount of approximately 55.51% to the audited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.023 as at 31 December 2016; and

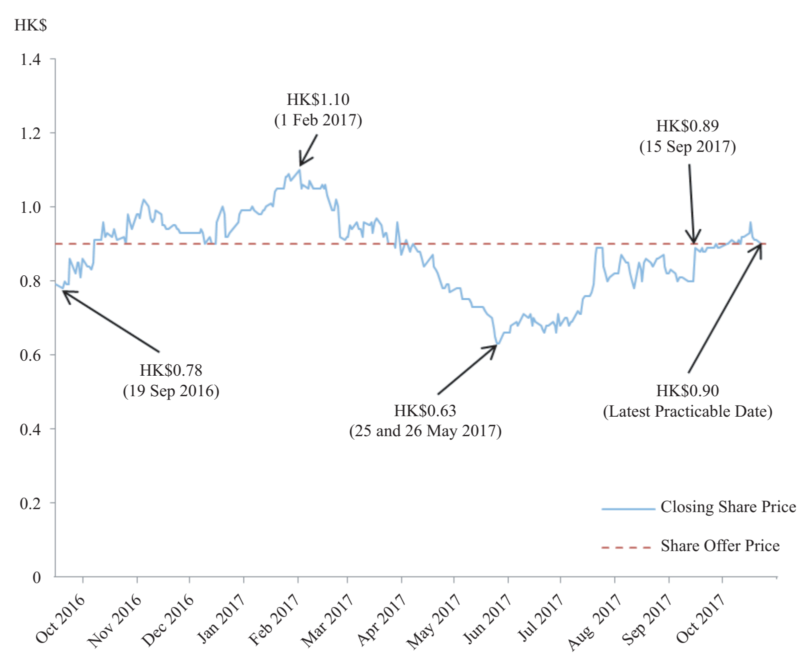
(viii) represents a discount of approximately 57.08% to the unaudited consolidated net asset value attributable to Shareholders per Share of approximately HK$2.097 as at 30 June 2017.

For the purpose of item (7) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.89451 as at 31 December 2016 and for the purpose of item (8) above, the exchange rate between HK$ and RMB is HK$1 = RMB0.86792 as at 30 June 2017.

5.2 Historical Share price trend

The chart below depicts the closing prices of the Shares traded on the Stock Exchange from 15 September 2016, being the date falling 12 months preceding the date of the Announcement, up to and including the Latest Practicable Date (the "**Review Period**"):

Historical Share Price



Source: Bloomberg

During the period from 15 September 2016 to 1 February 2017, the closing price of the Shares demonstrated a general upward trend, rising from HK$0.78 on 19 September 2016 to HK$1.10 per Share. The start of the upward trend can be traced back to 6 June 2016 when the Company announced that Jiangsu Tiangong Technology Company Limited, a non-wholly owned subsidiary of the Group, proposed to conduct a second round share placement to raise gross proceeds of RMB80.6 million in order to fund its capital needs for product development and introduce a strategic investor to the Group. The rise in Share price was probably due to the positive market response to the prospects of the Group as a result of the aforesaid fund raising exercise.

After the closing price of the Shares reached its recent peak of HK$1.10 on 1 February 2017, it gradually fell to the bottom of HK$0.63 on 25 May 2017 and 26 May 2017 which was its lowest price during the Review Period. Since then, the Share price started to rebound and reached HK$0.80 on 11 September 2017 (i.e. the Last Trading Date). We have enquired with the Directors the possible reasons for the aforesaid price fluctuation; however, they are not aware of any reason which may give rise to such Share price movements.

Trading in the Shares was suspended from 12 September 2017 to 14 September 2017 (both days inclusive) pending the publication of the Announcement. Immediately thereafter, the closing price of the Shares jumped to HK$0.89 on 15 September 2017 (i.e. the first trading day following the Announcement) and maintained in the range of HK$0.88 to HK$0.96 and closed at HK$0.90 as at the Latest Practicable Date.

During the Review Period, the closing price of the Shares ranged between HK$0.63 and HK$1.10 and the simple average closing price of the Shares was approximately HK$0.87. The Share Offer Price is within the aforesaid range and represents a premium of approximately 11.66%, 10.29%, 8.43% and 19.05% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the 5, 10, 30 and 90 consecutive trading days up to and including the Last Trading Day respectively. It also represents a premium of approximately 42.9% over the lowest closing Share price and a discount of approximately 18.2% to the highest closing Share price during the Review Period. In our opinion, the rise in the Share price after the publication of the Announcement was likely associated with the market response to the Offers. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise if the Offers close, lapse or do not become unconditional for any reason.

5.3 Liquidity of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

	Total trading volume for the month/period	Average daily trading volume for the month/period *(Note 1)*	Percentage of average daily trading volume to the total issued Shares as at the Latest Practicable Date *(Note 2)*	Percentage of average daily trading volume to the total number of Shares held by public Shareholders as at the Latest Practicable Date *(Note 3)*
2016				
15 to 30 September	33,213,500	3,019,409	0.1%	0.2%
October	72,323,300	3,806,489	0.2%	0.3%
November	54,904,800	2,495,673	0.1%	0.2%
December	89,256,000	4,462,800	0.2%	0.3%
2017				
January	47,430,824	2,496,359	0.1%	0.2%
February	38,248,000	1,912,400	0.1%	0.1%
March	29,677,449	1,290,324	0.1%	0.1%
April	18,688,000	1,099,294	0.05%	0.1%
May	25,514,000	1,275,700	0.1%	0.1%
June	34,328,000	1,560,364	0.1%	0.1%
July	52,174,000	2,484,476	0.1%	0.2%
August	97,040,000	4,410,909	0.2%	0.3%
September (trading of the Shares from 12 to 14 September was suspended)	160,350,000	8,908,333	0.4%	0.6%
October (up to the Latest Practicable Date)	69,294,000	4,330,875	0.2%	0.3%

Source: Bloomberg

Notes:

1. *Total trading volume is expressed in terms of number of Shares traded.*

2. *Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.*

3. *Based on 2,220,080,000 Shares in issue as at the Latest Practicable Date.*

4. *Based on 1,431,090,000 Shares held by the public Shareholders as at the Latest Practicable Date as disclosed in the letter from ABCI contained in the Composite Document.*

As illustrated in the above table, the average daily trading volume during the Review Period ranged from around 1,000,000 Shares to 9,000,000 Shares, representing approximately 0.05% to 0.4% of the total number of Shares in issue as at the Latest Practicable Date, and approximately 0.1% to 0.6% of the total number of Shares held by public Shareholders as at the Latest Practicable Date. Even with the increase in average daily trading volume after the publication of the Announcement, the percentage of average daily trading volume to the total issued Shares held by public Shareholders during the period from the first trading day following the Announcement to the Latest Practicable Date was only approximately 0.3%. In light of the thin liquidity of the Shares during the Review Period, we are of the view that the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares, and that the Share Offer provides the Independent Shareholders with an assured exit if they wish to realise their investments in the Shares.

5.4 Comparable companies

For the purpose of assessing the fairness and reasonableness of the Share Offer Price, we consider that it is relevant to assess the Share Offer Price by making reference to market valuation of companies listed in Hong Kong which are principally engaged in businesses similar to those of the Group.

Having considered the principal activities of the Group in manufacturing specialised steels and the significant contribution of revenue from the manufacture and sale of specialised steel as described in the section headed "Information of the Group" above and the listing status of the Company, we consider that companies (i) which are principally engaged in the steel manufacturing industry in the PRC with revenue from the production and sale of specialised steel products contributing not less than 50% of the total revenue for the latest financial year; and (ii) whose shares are listed on the Main Board or Growth Enterprise Market of the Stock Exchange with market capitalisation similar to that of the Company are companies comparable to the Company, and their market valuation would provide meaningful references for the purpose of our assessment of the fairness and reasonableness of the Share Offer Price. However, given the uniqueness of the business, sales focus and market position of the Group, we have not identified any listed company in Hong Kong which satisfies the criteria described above and accordingly we are not able to perform any comparison of the Share Offer Price against the market valuation of comparable companies.

5.5 Net asset value per Share

According to the 2016 annual report and 2017 interim report of the Company, the total equity attributable to equity shareholder of the Company were approximately RMB4,018 million as at 31 December 2016 and RMB4,041 million as at 30 June 2017. Based on the 2,220,080,000 Shares in issue as at the relevant dates, the net asset value per Share as at 31 December 2016 and 30 June 2017 were approximately HK$2.023 and HK$2.097 respectively and the Share Offer Price represents a discount of approximately 55.5% and 57.1% to the aforesaid net asset values per Share respectively.

As discussed in the paragraph headed "Financial position" in the section headed "Information of the Group" above, the assets of the Group mainly comprised properties, plant and equipment, inventories, and trade and other receivables. Among the total assets, property, plant and equipment with book value of approximately RMB3,411 million as at 30 June 2017 are used in the production of the Group's products, of which approximately RMB2,138 million were machinery, motor vehicles and other equipment. These assets are operating assets of the Group and it is not practicable for the Company to realise these operating assets while there are substantive operations. In addition, as certain of these assets are specific to the business of the Group, the Company may not be able to realise these assets at prices equal to or above their respective book value due to lack of marketability. Other assets such as inventories and trade and other receivables are also not readily realisable into cash. In our opinion, the net asset value per Share does not represent the cash value per Share which the Company may actually return to the Shareholders while the Group is operating as a going concern or put under liquidation. Neither does it represent the price per Share which a potential investor may be willing to pay, particularly when the acquisition involves a minority stake in the Company. This is demonstrated by the observation that the Shares had been traded below and at more than 50% discount to the net asset value per Share during most of the time of the Review Period.

In view of the above, we consider the net asset value per Share is not a suitable benchmark for assessing the fairness and reasonableness of the Share Offer Price. In our assessment of the fairness and reasonableness of the Share Offer Price, we have therefore focused on comparing the Share Offer Price with historical trading prices of the Shares instead of the net asset value per Share as we consider the trading price of the Shares determined under an open market to be a fair market price for listed securities at which a buyer is willing to purchase and a seller is willing to sell.

6. The Option Offer

The Company has outstanding Options in respect of 41,117,000 Shares, of which the exercise price in respect of 22,147,000 Shares is HK$1.78 and the exercise price of in respect of 18,970,000 Shares is HK$0.60. All Options were granted under the Old Share Option Scheme and are vested and exercisable at any time.

The Option Offer price is (i) HK$0.01 in cash for cancellation of each Option with an exercise price of HK$1.78; and (ii) HK$0.30 in cash for cancellation of each Option with an exercise price of HK$0.60 (collectively, the "**Option Offer Prices**"). The Option Offer Price of HK$0.30 for the cancellation of each Option with an exercise price of HK$0.60 represents the difference between the Share Offer Price and the exercise price. As the exercise price of HK$1.78 is higher than the Share Offer Price of HK$0.90, the Options with an exercise price of HK$1.78 have no implied intrinsic value based on the Share Offer Price and therefore a nominal cash consideration of HK$0.01 is offered for cancellation of each such Options. We consider the Option Offer Prices to be fair and reasonable so far as the Independent Optionholders are concerned.

7. Listing status of the Company

The Stock Exchange has stated that if, at the close of the Share Offer, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

The Offeror has no intention to privatise the Company and intends the Company to remain listed on the Main Board of the Stock Exchange after close of the Offers. The sole director of the Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float will exist in the Shares after the close of the Offers.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

(i) the Share Offer Price represents a premium of approximately 19.05%, 8.43%, 10.29% and 11.66% over the average of the closing prices of the Shares for the 90, 30, 10 and 5 consecutive trading days up to the including the Last Trading Day and a premium of approximately 12.50% over the closing price of the Shares on the Last Trading Date respectively, and it is equal to the closing price of the Shares as at the Latest Practicable Date;

(ii) the Share Offer Price lies within the range of closing price of the Shares of HK$0.63 to HK$1.10 during the Review Period. The Share prices during the six-month period preceding the Latest Practicable Date were consistently below the Share Offer Price. The recent increase in the price of the Shares was possibly due to the Offers, which may not be sustainable in the absence of the Offers;

(iii) the liquidity of the Shares was generally low and the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. The Share Offer provides an assured opportunity to the Independent Shareholders to realise their investments in the Company;

(iv) despite the Share Offer price is below the net asset value per Share, the net assets of the Group comprised substantially trade and bills receivables with long collection period and uncertain collectability, fixed assets used in the production activities and inventories which are not readily realisable into cash; and

(v) the financial performance of the Group had shown improvement due to the recent recovery in demand in domestic market. Nevertheless, the specialised steel industry in the PRC is to a certain extent policy driven and the competition within the industry is severe. There are uncertainties on the future business and profitability of the Group, particularly whether the Group is able to cope with the changes in government policies from time to time, maintain its competitiveness and pass on the costs to customers when the rare metal prices fluctuate,

we consider that the terms of the Share Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Share Offer.

In respect of the Options with an exercise price of HK$1.78, as these Options are out-of-money with no implied intrinsic value based on the Share Offer Price, we consider the Option Offer Price of a nominal amount of HK$0.01 for the cancellation of each Option is fair and reasonable so far as the Independent Optionholders are concerned. In respect of the Options with an exercise price of HK$0.60 which are in-the-money, as the Option Offer Price is determined using a "see through" approach in accordance with the requirements of Rule 13 of the Takeovers Code such that the Offeror is effectively offering to pay the Share Offer Price of HK$0.90 per Share that would have been issued under the Options, we consider the Option Offer Price of HK$0.30 for the cancellation of each Option is fair and reasonable so far as the Independent Optionholders are concerned. Accordingly, we also advise the Independent Board Committee to recommend the Independent Optionholders to accept the Option Offer.

Independent Shareholders and Independent Optionholders should note that the price of the Shares has increased and consistently traded at a level close to the Share Offer Price since 14 September 2017 following the publication of the Announcement. Independent Shareholders or Independent Optionholders who wish to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market instead of accepting the Share Offer, if the net proceeds of such sale after deducting all transaction costs and, in the case of the Share Options, the exercise price of the Share Options exceed the net amount to be received under the Share Offer.

Independent Shareholders and Independent Optionholders should also read carefully the procedures for accepting the Share Offer and the Option Offer set out in the letter from ABCI and in Appendix I to the Composite Document and the accompanying Form(s) of Acceptance.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED
Mei H. Leung
Chairman

Ms. Mei H. Leung is a licensed person and a responsible officer of Optima Capital Limited registered with the SFC to carry out type 1 (securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed in Hong Kong.

1. PROCEDURES FOR ACCEPTANCE OF THE OFFERS

1.1 The Share Offer

To accept the Share Offer, you should complete and sign the accompanying **WHITE** Form of Share Offer Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Share Offer. You should insert the total number of Shares for which the Share Offer is accepted. If no number is inserted or a number inserted is greater or smaller than your registered holding of Share(s) or those physical Share(s) tendered for acceptance of the Share Offer and you have signed the form, the form will be returned to you for correction and resubmission. Any corrected form must be resubmitted and received by the Registrar by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive. Your Shares sold to the Offeror by way of acceptance of the Share Offer will be registered under the name of the Offeror or its nominee.

By signing and returning the **WHITE** Form of Share Offer, you warrant to the Offeror, ABCI and the Company that you have not taken or omitted to take any action which will or may result in the Offeror and its Concert Parties, the Company, ABCI or any other person acting in breach of the legal or regulatory requirements of any territory in connection with the Share Offer or your acceptance thereof.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name and you wish to accept the Share Offer, you must send the duly completed and signed **WHITE** Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in any event by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own and you wish to accept the Share Offer in full or in part, you must either:

(a) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the **WHITE** Form of Share Offer Acceptance duly completed together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar; or

(b) arrange for the Shares to be registered in your name by the Company, through the Registrar, and send the duly completed **WHITE** Form of Share Offer Acceptance together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

(c) if your Shares have been lodged with your licensed securities dealer/ registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees to accept the Share Offer on your behalf on or before the deadline set by HKSCC Nominees. In order to meet the deadline set by HKSCC Nominees, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

(d) if your Shares have been lodged with your Investor Participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System before the deadline set by HKSCC Nominees.

If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, the **WHITE** Form of Share Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your share certificates and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it/ they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter.

If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

If you have lodged transfer(s) of any of your Shares for registration in your name and have not received your share certificate(s) and you wish to accept the Share Offer, you should nevertheless complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by you. Such action will be deemed to be an irrevocable authority to the Offeror to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance.

An acceptance of the Share Offer may not be counted as valid unless:

(a) it is received by the Registrar by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive, and the Registrar has recorded that such acceptance and any relevant documents required under paragraph (b) below have been so received; and

(b) the **WHITE** Form of Share Offer Acceptance is duly completed and signed and is:

(i) accompanied by the relevant share certificate(s) and/or transfer receipt (s) and/or other document (s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those share certificate(s) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or

(ii) from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under the other sub-paragraphs of this paragraph (b)); or

(iii) certified by the Registrar or the Stock Exchange.

If the **WHITE** Form of Share Offer Acceptance is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

No acknowledgment of receipt of any **WHITE** Form of Share Offer Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

1.2 The Option Offer

If you accept the Option Offer, you should complete the **PINK** Form of Option Offer Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Option Offer. The Options will be categorised in different categories each called "Option Class" by virtue of the exercise price of each Option.

The completed **PINK** Form of Option Offer Acceptance should be forwarded, together with the relevant certificate(s) of the Options (if applicable) under the Option Class you intend to tender, stating the number of Options in respect of which you intend to accept the Option Offer under such Option Class, by post or by hand to the Registrar as soon as possible and in any event so as to reach the Registrar at the aforesaid address by not later than 4:00 p.m. on the Closing Date, being the first Closing Date or such later time(s) and/or date(s) as may be announced by the Offeror in compliance with the Takeovers Code and approved by the Executive.

If the certificate(s) in respect of your Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Option Offer, the **PINK** Form of Option Offer Acceptance should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Option certificate(s) (if applicable) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Option certificate(s) (if applicable), you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

If the certificate(s) in respect of your Options (if applicable) is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer, you must exercise the Options to the extent exercisable as indicated in section 3 in this Appendix I below, but so that the relevant exercise notice, cheque for the subscription monies and the **WHITE** Form of Share Offer Acceptance must reach the Registrar on or before the first Closing Date. You should also write to the Company requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Company with a copy delivered to the Registrar.

No stamp duty will be deducted from the amount paid or payable to Optionholders who accept the Option Offer.

No acknowledgment of receipt of any **PINK** Form of Option Offer Acceptance and/or certificate(s) of the Options (if applicable) will be given.

2. SETTLEMENT

2.1 The Share Offer

If you accept the Share Offer, settlement of the consideration (less seller's ad valorem stamp duty) will be made by cheque as soon as possible, but in any event within seven Business Days of the date of receipt of a complete and valid acceptance of the Share Offer, or of the date on which the Offers become or are declared unconditional in all respects, whichever is the later. Each cheque will be despatched by ordinary post to the address specified on the relevant Shareholder's **WHITE** Form of Share Offer Acceptance at his/her own risk.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

Shareholders are recommended to consult their professional advisers if they are in doubt as to the above procedures.

2.2 The Option Offer

If you accept the Option Offer, settlement of the consideration will be made by cheque as soon as possible, but in any event within seven Business Days of the date of receipt of a complete and valid acceptance of the Option Offer, or of the date on which the Offers become or are declared unconditional in all respects, whichever is the later. Each cheque will be despatched by ordinary post at the own risk of the relevant Optionholder to the office of the Group in Hong Kong at Unit 1303, 13/F Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong for collection.

No fractions of a cent will be payable and the amount of cash consideration payable to an Optionholder who accepts the Option Offer will be rounded up to the nearest cent.

3. EXERCISE OF OPTIONS

An Optionholder who wishes to accept the Share Offer may exercise his/her Options (to the extent exercisable) by completing, signing and delivering a notice for exercising the Options together with a cheque for payment of the subscription monies and the related certificates (if applicable) for the Options to the Company at Unit 1303, 13/F Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong on or before the first Closing Date, or such other time and/or date as the Offeror may, subject to the Takeovers Code, decide and announce. The Optionholder should at the same time complete and sign the **WHITE** Form of Share Offer Acceptance and deliver it to the Registrar together with a copy of the set of documents delivered to the Company for exercising the Options. Exercise of the Options is subject to the terms and conditions of the Old Share Option Scheme or the New Share Option Scheme (as applicable) and the terms attaching to the grant of the relevant Options. Delivery of the completed and signed **WHITE** Form of Share Offer Acceptance to the Registrar will not serve to complete the exercise of the Options but will only be deemed to be an irrevocable authority to the Offeror and/or ABCI and/or any of their respective agent(s) or such other person(s) as they may direct to collect from the Company or the Registrar on his/her behalf the relevant share certificate(s) when issued on exercise of the Options as if it was/they were delivered to the Registrar with the **WHITE** Form of Share Offer Acceptance. If an Optionholder fails to exercise his/her Options as aforesaid, there is no guarantee that the Company may issue the relevant share certificate in respect of the Shares allotted pursuant to his/her exercise of the Option(s) to such Optionholder in time for him/her to accept the Share Offer as a Shareholder of such Shares under the terms of the Share Offer.

4. LAPSE OF OPTIONS

Nothing in this Composite Document or the Option Offer will serve to extend the life of any Option which will lapse in accordance with the Old Share Option Scheme on (in the case of Options with an exercise price of HK$0.60) 31 December 2017 or (in the case of Options with an exercise price of HK$1.78) 18 August 2019. No exercise of Options or acceptance of the Option Offer may be made in relation to any Option that has lapsed.

5. ACCEPTANCE PERIOD AND REVISIONS

Unless the Offers have previously been revised or extended with the consent of the Executive, to be valid, the **WHITE** Form of Share Offer Acceptance and the **PINK** From of Option Offer Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.

If the Offers are extended, the announcement of such extension will state the next Closing Date or a statement that the Offers will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to Shareholders and Optionholders before the Offers are closed. If, in the course of the Offers, the Offeror revises the terms of the Offers, all Shareholders and Optionholders, whether or not they have already accepted the Share Offer and the Option Offer, respectively, will be entitled to accept the revised Share Offer and the revised Option Offer, respectively, under the revised terms. The revised Offers must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

If the Closing Date is extended, any reference in this Composite Document and in the Forms of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

6. ANNOUNCEMENTS

By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision and extension of the Offers. The Offeror must publish an announcement in accordance with the Listing Rules on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating the results of the Offers and whether the Offers have been revised, extended or expired. The announcement will state the following:

(i) the total number of Shares and rights over Shares for which acceptances of the Offers have been received;

(ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror and its Concert Parties before the Offer Period;

(iii) the total number of Shares and rights over Shares acquired or agreed to be acquired during the Offer Period by the Offeror and its Concert Parties; and

(iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeover Code) in which the Offeror and any of its Concert Parties have borrowed or lent, save for any borrowed Shares which have been either on-lent or sold.

The announcement will specify the percentages of voting rights represented by these numbers of Shares.

In computing the total number of Shares and Options represented by acceptances, only valid acceptances that are complete, in good order and fulfill the acceptance conditions set out in this Appendix I, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offers, shall be included.

As required under the Takeovers Code, all announcements in relation to the Offers will be made in accordance with the requirements of the Listing Rules.

7. NOMINEE REGISTRATION

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in the names of nominees, to accept the Share Offer, it is essential that they provide instructions of their intentions with regard to the Share Offer to their nominees.

All documents and remittances sent to Shareholders and Optionholders by post will be sent to them by ordinary post at their own risk. Such documents and remittances will be sent to Shareholders and Optionholders at their addresses, in the case of Shareholders, specified on the relevant Shareholder's **WHITE** Form of Share Offer Acceptance, and in the case of Optionholders to the office of the Group in Hong Kong at Unit 1303, 13/F Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong. None of the Offeror, the Company, ABCI, the Registrar or any of their respective directors or any other person involved in the Offers will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

8. RIGHT OF WITHDRAWAL

The Share Offer is conditional upon fulfilment of the Conditions set out in the "Letter from ABCI" in this Composite Document and the Option Offer is conditional upon the Share Offer becoming and being declared unconditional in all respects. Acceptance of the Share Offer and the Option Offer tendered by Independent Shareholders and Independent Optionholders, respectively, shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph or in compliance with Rule 17 of the Takeovers Code, which provides that an acceptor of the Share Offer or the Option Offer shall be entitled to withdraw his/her acceptance within 21 days from the first Closing Date (being 17 November 2017) and if the Offers have not by then become unconditional as to acceptances. An acceptor of the Share Offer or the Option Offer may withdraw his/her acceptance by lodging a notice in writing signed by the acceptor (or his/her agent duly appointed in writing and evidence of whose appointment is produced together with the notice) to the Registrar.

Under Rule 19.2 of the Takeovers Code, if the Offeror is unable to comply with any of the requirements of making announcements relating to the Offers set out in section 6 of this Appendix I, the Executive may require that acceptors be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met.

9. SHARES

Acceptance of the Share Offer or the Option Offer by Independent Shareholders or Independent Optionholders, respectively, will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Share Offer or Options tendered under the Option Offer (as the case may be) are sold or tendered by the Independent Shareholders or Independent Optionholders (as the case may be) free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on the Closing Date or subsequently becoming attached to it, including, without limitation, in the case of the Shares, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Closing Date.

10. HONG KONG STAMP DUTY

Sellers' ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by each Shareholder at the rate of HK$1.00 for every HK$1,000 or part thereof of (i) the market value of the Shares; or (ii) the consideration payable by the Offeror for such person's Shares, whichever is higher, and will be deducted from the cash amount due to such accepting Shareholder. The Offeror will pay the buyer's ad valorem stamp duty on its own behalf and, subject to such deduction aforesaid will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the Shares which are validly tendered for acceptance under the Share Offer.

11. GENERAL

(a) All communications, notices, the Forms of Acceptance, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from Shareholders and Optionholders will be delivered by or sent to or from them, or their designated agents, through post at their own risk, and none of the Offeror, the Company, the Registrar or any of their respective directors or agents accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.

(b) The provisions set out in the **WHITE** Form of Share Offer Acceptance and the **PINK** Form of Option Offer Acceptance form part of the terms of the Share Offer and the Option Offer, respectively.

(c) The accidental omission to despatch this Composite Document and/or the Forms of Acceptance or any of them to any person to whom the Offers are made will not invalidate either of the Share Offer or the Option Offer in any way.

(d) The Share Offer and the Option Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong.

(e) Due execution of a **WHITE** Form of Share Offer Acceptance will constitute an authority to the Offeror, the sole director of the Offeror, ABCI or such person or persons as the Offeror may direct, to complete and execute any document on behalf of the person or persons accepting the Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares in respect of which such person or persons has/have accepted the Share Offer.

(f) The settlement of the consideration to which any Shareholder or Optionholder is entitled under the Share Offer and the Option Offer, respectively, will be implemented in full in accordance with the terms of the Share Offer and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder or Optionholder.

(g) Any Shareholders or Optionholders accepting the Share Offer or the Option Offer respectively will be responsible for payment of any transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.

(h) In making their decision, Shareholders and Optionholders must rely on their own examination of the Group and the terms of the Share Offer and the Option Offer, respectively, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of the Offeror, the Company, ABCI, or their respective professional advisers. Shareholders and Optionholders should consult their own professional advisers for professional advice.

(i) References to the Share Offer or the Option Offer in this Composite Document and in the Forms of Acceptance shall include any extension and/or revision thereof.

(j) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Share Offer and the Option Offer in Hong Kong and the operating rules of the Stock Exchange ONLY.

1. FINANCIAL SUMMARY

The following summary financial information for each of the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the two financial years ended 31 December 2015 and 31 December 2016, respectively, and the summary financial information for the six months ended 30 June 2017 is extracted from the unaudited consolidated financial statements of the Group as set forth in the interim report of the Company for the six months ended 30 June 2017.

The auditor's reports issued by KPMG in respect of the Group's audited consolidated financial statements for each of the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 did not contain any qualifications.

There was no item which was exceptional because of size, nature or incidence that was recorded in the financial statements of the Group for each of the financial years ended 31 December 2014, 2015 and 2016.

(a) Consolidated statement of profit or loss

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	4,535,670	3,429,397	3,376,134
Cost of sales	(3,626,838)	(3,038,061)	(3,003,942)
Gross profit	908,832	391,336	372,192
Other income	26,517	19,324	76,299
Distribution expenses	(70,500)	(67,855)	(66,264)
Administrative expenses	(123,834)	(115,404)	(142,918)
Other operating expenses	(58,637)	(14,154)	(12,294)
Profit from operations	682,378	213,247	227,015
Finance income	9,337	8,521	9,398
Finance expenses	(151,236)	(149,240)	(112,697)
Net finance costs	(141,899)	(140,719)	(103,299)
Share of profits/(losses) of associates	(2,702)	5,857	7,751
Share of profits/(losses) of joint ventures	6,391	6,820	(551)
Profit before taxation	544,168	85,205	130,916
Income tax	(81,421)	(13,074)	(14,920)
Profit for the year	462,747	72,131	115,996
Attributable to:			
Equity shareholders of the Company	463,466	72,623	110,571
Non-controlling interests	(719)	(492)	5,425
Profit for the year	462,747	72,131	115,996
Earnings per share (RMB)			
Basic	0.230	0.033	0.050
Diluted	0.230	0.033	0.050

(b) Consolidated statement of profit or loss and other comprehensive income

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year	462,747	72,131	115,996
Other comprehensive income for the year (after tax and reclassification adjustment):			
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)	(1,404)	(27,787)	(27,642)
Available-for-sale securities net movement in the fair value reserve (net of tax of RMB12,945,000)	—	—	73,355
Other comprehensive income for the year	(1,404)	(27,787)	45,713
Total comprehensive income for the year	461,343	44,344	161,709
Attributable to:			
Equity shareholders of the Company	462,062	44,836	156,284
Non-controlling interests	(719)	(492)	5,425
Total comprehensive income for the year	461,343	44,344	161,709

(c) Consolidated statement of profit or loss

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

(d) Consolidated statement of profit or loss and other comprehensive income

	For the six months ended 30 June	
	2016	**2017**
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Profit for the period	26,864	40,905
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)	72	8,860
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	72	5,970
Total comprehensive income for the period	26,936	46,875
Attributable to:		
Equity shareholders of the Company	25,785	45,260
Non-controlling interests	1,151	1,615
Total comprehensive income for the period	26,936	46,875

2. FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

The following financial information is extracted from the annual report of the Company for the year ended 31 December 2016.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016
(Expressed in Renminbi)

	note	2016 RMB'000	2015 RMB'000
Revenue	5	**3,376,134**	3,429,397
Cost of sales		**(3,003,942)**	(3,038,061)
Gross profit		**372,192**	391,336
Other income	6	**76,299**	19,324
Distribution expenses		**(66,264)**	(67,855)
Administrative expenses		**(142,918)**	(115,404)
Other operating expenses	7	**(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	8(a)	**(103,299)**	(140,719)
Share of profits of associates	17	**7,751**	5,857
Share of (losses)/profits of joint ventures	18	**(551)**	6,820
Profit before taxation	8	**130,916**	85,205
Income tax	9	**(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)*	12		
Basic		**0.050**	0.033
Diluted		**0.050**	0.033

The notes on pages 69 to 128 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016
(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Profit for the year	**115,996**	72,131
Other comprehensive income for the year (after tax and reclassification adjustment)		
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)	**(27,642)**	(27,787)
Available-for-sale 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

The notes on pages 69 to 128 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016
(Expressed in Renminbi)

	note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**3,444,164**	3,243,542
Lease prepayments	14	**72,624**	74,372
Goodwill	15	**21,959**	21,959
Interest in associates	17	**46,484**	38,503
Interest in joint ventures	18	**25,343**	24,509
Other financial assets	19	**96,300**	10,000
Deferred tax assets	29(b)	**30,146**	20,089
		3,737,020	3,432,974
Current assets			
Inventories	20	**1,901,775**	1,886,643
Trade and other receivables	21	**1,577,383**	1,895,480
Pledged deposits	22	**180,180**	445,389
Time deposits	23	**640,000**	400,000
Cash and cash equivalents	24	**259,546**	323,486
		4,558,884	4,950,998
Current liabilities			
Interest-bearing borrowings	25	**2,678,912**	2,580,896
Trade and other payables	26	**1,145,129**	1,347,335
Current taxation	29(a)	**1,560**	–
Deferred income	27	**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
Non-current liabilities			
Interest-bearing borrowings	25	**210,000**	485,978
Deferred income	27	**43,876**	48,168
Deferred tax liabilities	29(c)	**55,153**	44,146
		309,029	578,292
Net assets		**4,155,434**	3,876,287

The notes on pages 69 to 128 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016
(Expressed in Renminbi)

	note	**2016** **RMB'000**	2015 RMB'000
Capital and reserves			
Share capital	30(a)/(c)	**40,167**	40,167
Reserves	30(d)	**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

Approved and authorised for issue by the board of directors on 28 March 2017.

Zhu Xiaokun	**Yan Ronghua**
Directors	*Directors*

The notes on pages 69 to 128 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Expressed in Renminbi)

	note	Attributable to equity shareholders of the Company										
		Share Capital RMB'000 (note 30 (c)(i))	Share premium RMB'000 (note 30 (d)(i))	Capital redemption reserve RMB'000 (note 30 (d)(i))	Capital reserve RMB'000 (note 30 (d)(ii))	Merger reserve RMB'000 (note 30 (d)(iii))	Exchange reserve RMB'000 (note 30 (d)(iv))	Fair value reserve RMB'000 (note 30 (d)(v))	PRC Statutory reserve RMB'000 (note 30 (d)(vi))	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		**40,167**	**1,590,760**	**492**	**74,367**	**91,925**	**(34,259)**	**-**	**530,335**	**1,582,500**	**-**	**3,876,287**
Changes in equity for 2016												
Profit for the year		-	-	-	-	-	-	-	-	110,571	5,425	115,996
Other comprehensive income		-	-	-	-	-	(27,642)	73,355	-	-	-	45,713
Total comprehensive income		-	-	-	-	-	(27,642)	73,355	-	110,571	5,425	161,709
Dividends approved in respect of the previous year	30 (b)(ii)	-	-	-	-	-	-	-	-	(14,912)	-	(14,912)
Transfer to reserve		-	-	-	-	-	-	-	14,203	(14,203)	-	-
Issuance of share options		-	-	-	2,253	-	-	-	-	-	-	2,253
Partial disposal to non-controlling interest	16 (iii)	-	-	-	-	-	-	-	-	(2,197)	132,294	130,097
Forfeiture of share options		-	-	-	(3,772)	-	-	-	-	3,772	-	-
Balance at 31 December 2016		**40,167**	**1,590,760**	**492**	**72,848**	**91,925**	**(61,901)**	**73,355**	**544,538**	**1,665,531**	**137,719**	**4,155,434**

	note	Attributable to equity shareholders of the Company										
		Share Capital RMB'000 (note 30 (c)(i))	Share premium RMB'000 (note 30 (d)(i))	Capital redemption reserve RMB'000 (note30 (d)(i))	Capital reserve RMB'000 (note 30 (d)(ii))	Merger reserve RMB'000 (note 30 (d)(iii))	Exchange reserve RMB'000 (note 30 (d)(iv))	PRC Statutory reserve RMB'000 (note 30 (d)(vi))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB00
Balance at 1 January 2015		40,167	1,590,760	492	74,367	91,925	(6,472)	519,106	1,617,580	3,927,925	1,896	3,929,821
Changes in equity for 2015												
Profit for the year		–	–	–	–	–	–	–	72,623	72,623	(492)	72,131
Other comprehensive income		–	–	–	–	–	(27,787)	–	–	(27,787)	–	(27,787)
Total comprehensive income		–	–	–	–	–	(27,787)	–	72,623	44,836	(492)	44,344
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	–	–	–	(96,402)	(96,402)	–	(96,402)
Transfer to reserve		–	–	–	–	–	–	11,301	(11,301)	–	–	–
Disposal of a subsidiary		–	–	–	–	–	–	(72)	–	(72)	(1,404)	(1,476)
Balance at 31 December 2015		40,167	1,590,760	492	74,367	91,925	(34,259)	530,335	1,582,500	3,876,287	–	3,876,287

The notes on pages 69 to 128 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016
(Expressed in Renminbi)

	note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations	24(b)	**516,931**	710,820
Income tax paid		**(22,163)**	(78,288)
Net cash generated from operating activities		**494,768**	632,532
Investing activities			
Payment for the purchase of property, plant and equipment		**(392,961)**	(443,014)
Payment for lease prepayment		**–**	(515)
Proceeds from disposal of property, plant and equipment		**10,604**	3,335
Net (payment to purchase)/proceeds from maturity of time deposits		**(240,000)**	143,100
Net proceeds from maturity/(payment for purchase) of pledged deposits		**265,209**	(40,989)
Interest received	8(a)	**9,398**	8,521
Proceeds from disposal of a subsidiary		**–**	(2,084)
Dividends received from unlisted securities		**–**	800
Dividends received from an associate		**1,738**	–
Proceeds from disposal of a joint venture		**656**	–
Payment for establishment of associate		**(4,587)**	–
Payment for capital injection in joint ventures		**(2,670)**	(5,314)
Net cash used in investing activities		**(352,613)**	(336,160)
Financing activities			
Proceeds from interest-bearing borrowings		**4,902,796**	4,485,757
Repayment of interest-bearing borrowings		**(5,080,758)**	(4,394,935)
Interest paid		**(118,925)**	(151,654)
Dividends paid to equity shareholders of the Company	30(b)(ii)	**(14,912)**	(96,402)
Proceeds from partial disposal to non-controlling interests		**130,097**	–
Net cash used in financing activities		**(181,702)**	(157,234)
Net (decrease)/increase in cash and cash equivalents		**(39,547)**	139,138
Cash and cash equivalents at 1 January		**323,486**	181,373
Effect of foreign exchange rate changes		**(24,393)**	2,975
Cash and cash equivalents at 31 December		**259,546**	323,486

The notes on pages 69 to 128 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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 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.

The Company and its subsidiaries are collectively referred to as the "Group".

2 Basis of preparation

(a) Statement of compliance

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"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out in note 3.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

(c) Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group entities, except as explained in note 4, which addresses changes in accounting policies.

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(j) and (k) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint ventures (see note 3(b)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3 Significant accounting policies (continued)

(b) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 3(c) and (g)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(d)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 3(g)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

3 Significant accounting policies (continued)

(c) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(g)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(d) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

The Group's investments in equity securities are classified as available-for-sale financial assets. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 3(g)). Dividend income from equity securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 3(p)(iii).

When the investments are derecognised or impaired (see note 3(g)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

3 Significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see note 3(g)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	20 years
— Machinery	10-20 years
— Motor vehicles	8 years
— Office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents plant and buildings under construction and equipment pending installation, and is stated at cost less impairment losses (see note 3(g)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

3 Significant accounting policies (continued)

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments in the consolidated statement of financial position represent the cost of land use rights paid to the People's Republic of China (the "PRC") land bureau. Land use rights are carried at cost less accumulated amortisation and accumulated impairment losses (see note 3(g)). Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the respective periods of the rights.

(g) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 3(b)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(g)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(g)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets;

— prepayments for leasehold land classified as being held under an operating lease;

— goodwill; and

— investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

— *Calculation of recoverable amount*
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3 (g)(i) and 3 (g)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3 Significant accounting policies (continued)

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3 Significant accounting policies (continued)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

3 Significant accounting policies (continued)

(n) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

3 Significant accounting policies (continued)

(p) Revenue recognition (continued)

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3 Significant accounting policies (continued)

(s) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (i).

(vii) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Chairman (the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4 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 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.

5 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 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 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.

5 Revenue and segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

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 RMB'000	**HSS RMB'000**	**Cutting tools RMB'000**	**Titanium alloy RMB'000**	**Trading of goods RMB'000**	**Total 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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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

5 Revenue and segment reporting (continued)

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

	2016 RMB'000	2015 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 RMB'000	2015 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 RMB'000	2015 RMB'000
Assets		
Reportable segment assets	**6,941,983**	7,092,375
Trade and other receivables (note 21)	**–**	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

5 Revenue and segment reporting (continued)

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

	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.

6 Other income

	note	**2016** RMB'000	2015 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	21(b)	**39,308**	–
Others		**978**	3,772
		76,299	19,324

Note:

(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 (see note 27).

7 Other operating expenses

	2016 RMB'000	2015 RMB'000
Impairment loss on trade receivables (note 21(b))	**–**	10,198
Net loss on disposal of property, plant and equipment	**675**	2,541
Net foreign exchange losses	**11,619**	–
Others	**–**	1,415
	12,294	14,154

8 Profit before taxation

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

(a) Net finance costs

	2016 RMB'000	2015 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 RMB'000	2015 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 (note 28)	**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.

8 Profit before taxation (continued)

(c) Other items

	note	2016 RMB'000	2015 RMB'000
Depreciation of property, plant and equipment	13	**211,877**	190,416
Amortisation of lease prepayments	14	**1,748**	1,655
Impairment losses on trade and other receivables (reversed)/recognised	21(b)	**(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 8(b) for each of these types of expenses.

9 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 (note 29(a))	**24,645**	12,956
Provision for Hong Kong Profits Tax (note 29(a))	**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.

9 Income tax in the consolidated statement of profit or loss (continued)

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

(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 RMB'000	2015 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

10 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383 (1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2016

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Bonuses RMB'000	Share-based payments *(note)* RMB'000	Total RMB'000
Executive directors						
Zhu Xiaokun	–	168	13	7,500	304	7,985
Wu Suojun	–	149	13	250	111	523
Yan Ronghua	–	154	13	220	69	456
Jiang Guangqing	–	121	13	200	41	375
Independent non-executive directors						
Wang Xuesong (appointed on 3 September 2016)	27	–	–	–	–	27
Yin Shuming (resigned on 3 September 2016)	28	–	–	–	–	28
Gao Xiang	36	–	–	–	–	36
Lee Cheuk Yin, Dannis	82	–	–	–	–	82
Total	173	592	52	8,170	525	9,512

10 Directors' emoluments (continued)

Year ended 31 December 2015

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Bonuses RMB'000	Share-based payments (*note*) RMB'000	Total RMB'000
Executive directors						
Zhu Xiaokun	–	128	14	7,500	–	7,642
Wu Suojun	–	134	13	43	–	190
Yan Ronghua	–	135	13	41	–	189
Jiang Guangqing	–	113	13	42	–	168
Independent non-executive directors						
Yin Shuming	48	–	–	–	–	48
Gao Xiang	36	–	–	–	–	36
Lee Cheuk Yin, Dannis	76	–	–	–	–	76
Total	160	510	53	7,626	–	8,349

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(m)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 28.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2015: two) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other two (2015: three) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**1,028**	830
Share-based payments	**111**	–
Bonuses	**286**	515
Contributions to retirement benefit schemes	**22**	22
	1,447	1,367

The emoluments of the two (2015: three) individuals with the highest emoluments are within the band of nil to HKD1,000,000.

(Expressed in Renminbi unless otherwise indicated)

12 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:

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 (note 28)	**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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

13 Property, plant and equipment

	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Balance at 1 January 2015	766,341	2,469,390	10,913	39,644	509,182	3,795,470
Additions	2,562	104,611	–	656	333,278	441,107
Transfer from construction in process	123,223	427,672	–	–	(550,895)	–
Disposals	–	(62,249)	(1,040)	(20)	–	(63,309)
Balance at 31 December 2015	892,126	2,939,424	9,873	40,280	291,565	4,173,268
Additions	242	64,494	1,982	742	356,318	423,778
Transfer from construction in process	81,416	24,499	–	–	(105,915)	–
Disposals	(7,476)	(28,145)	(668)	(413)	–	(36,702)
Balance at 31 December 2016	966,308	3,000,272	11,187	40,609	541,968	4,560,344
Accumulated depreciation:						
Balance at 1 January 2015	(169,745)	(597,136)	(2,891)	(26,971)	–	(796,743)
Charge for the year	(36,770)	(147,004)	(1,188)	(5,454)	–	(190,416)
Written back on disposals	–	57,097	324	12	–	57,433
Balance at 31 December 2015	(206,515)	(687,043)	(3,755)	(32,413)	–	(929,726)
Charge for the year	(40,692)	(165,777)	(1,218)	(4,190)	–	(211,877)
Written back on disposals	1,918	23,038	74	393	–	25,423
Balance at 31 December 2016	(245,289)	(829,782)	(4,899)	(36,210)	–	(1,116,180)
Net book value:						
At 31 December 2016	721,019	2,170,490	6,288	4,399	541,968	3,444,164
At 31 December 2015	685,611	2,252,381	6,118	7,867	291,565	3,243,542

(i) All plant and buildings are located in the PRC.

(ii) Pursuant to the lease agreements entered into between the Group and Jiangsu Tiangong Group Company Limited ("TG Group") on 6 January 2010, the Group is required to pay RMB600,000 per annum for the lease of office premises from the TG Group effective from 1 January 2010 to 31 December 2016, and to pay RMB400,000 per annum for the lease of amenity facilities from the TG Group effective from 1 January 2010 to 31 December 2016 (see note 33(b)).

14 Lease prepayments

	RMB'000
Cost:	
At 1 January 2015	89,132
Additions	515
At 31 December 2015	89,647
Additions	–
At 31 December 2016	89,647
Accumulated amortisation:	
At 1 January 2015	(13,620)
Charge for the year	(1,655)
At 31 December 2015	(15,275)
Charge for the year	(1,748)
At 31 December 2016	(17,023)
Net book value:	
At 31 December 2016	72,624
At 31 December 2015	74,372

The amortisation charge for the year is included in "administration expenses" in the consolidated statement of profit or loss.

15 Goodwill

	2016 RMB'000	2015 RMB'000
Cost:		
Balance at 1 January	**21,959**	22,086
Disposal of a subsidiary	**–**	(127)
Balance at 31 December	**21,959**	21,959
Accumulated impairment losses:		
Balance at 31 December 2015 and 2016	**–**	–
Carrying amount:		
At 31 December	**21,959**	21,959

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill is allocated to the Group's CGUs identified according to the reportable segments as follows:

	2016 RMB'000	2015 RMB'000
DS & HSS	**21,959**	21,959

The recoverable amounts of the CGUs were determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate, growth rate of revenue and gross margin. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolated cash flows for the following thirteen years based on an estimated growth rate of revenue of 4%–10% (2015: 3%–10%), a discount rate of 9.34% (2015: 9.15%) and a gross margin of 10%–15% (2015: 10%–18%). The growth rate used does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined the budgeted gross margin and growth rate of revenue based on past performance and its expectation for market development. The discount rates used are after-tax and reflect specific risks relating to the relevant segments.

The recoverable amounts of the CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment of goodwill is recognised in the consolidated statement of profit or loss.

(Expressed in Renminbi unless otherwise indicated)

16 Interests in subsidiaries

The following list contains only the subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company		Place and date of incorporation	Proportion of ownership interest Direct	Indirect	Issued and fully paid-up/registered capital	Principal activity
China Tiangong Company Limited		British Virgin Islands, 14 August 2006	100%	–	USD–/ USD50,000	Investment holding
TG Tools	(i)	The PRC, 7 July 1997	–	100%	RMB1,810,000,000/ RMB1,810,000,000	Manufacture and sale of high speed steel and cutting and drilling tools
TG Aihe	(ii)	The PRC, 5 December 2003	–	100%	RMB723,038,000/ RMB723,038,000	Manufacture and sale of die steel
Danyang Tianfa Forging Company Limited ("Tianfa Forging")	(ii)	The PRC, 11 October 2000	–	100%	USD18,600,000/ USD18,600,000	Precision forging and sale of high speed steel
China Tiangong (Hong Kong) Company Limited ("CTCL(HK)")		Hong Kong, 13 June 2008	–	100%	HKD1/ HKD1	Investment holding
TG Tech	(iii)	The PRC, 27 January 2010	–	74.03%	RMB405,000,000/ RMB405,000,000	Manufacture and sale of alloy, steel, cutting and drilling tools and titanium-related products
TG Development		Hong Kong, 15 February 2012	–	100%	USD5,500,000/ USD5,500,000	Trading of alloy, steel, cutting and drilling tools and titanium-related products
Jiangsu Tiangong Mould Steel R&D Center Company Limited ("TG R&D")	(iv)	The PRC, 5 March 2012	–	100%	RMB5,000,000/ RMB5,000,000	Research and development of alloy, steel, and titanium-related products
Jiangsu Tiangong International Trading Company Limited ("International Trading")	(iv)	The PRC, 6 March 2014	–	100%	RMB20,000,000/ RMB50,000,000	Trading of chemical goods, silicon iron, aluminum and billet steel
Jurong Tiangong New Materials Technology Company Limited ("TG New Materials")	(iv)	The PRC, 29 July 2015	–	100%	RMB–/ RMB300,000,000	Research and development, manufacture and sale of high speed steel, and die steel related products
Danyang Tianjia Tools Technology Company Limited ("Tianjia Tech")	(v)	The PRC, 25 January 2016	–	100%	HKD–/ HKD10,000,000	Research and development, distribution and sale of cutting tools related products
Danyang Taifeng Precision Machinery Tools Company Limited ("Taifeng Precision")	(v)	The PRC, 5 February 2016	–	100%	RMB–/ RMB8,000,000	Research and development, manufacture, distribution and sale of cutting tools related products

16 Interests in subsidiaries (continued)

Note:

(i) TG Tools is a wholly foreign-owned enterprise incorporated in the PRC.

(ii) TG Aihe and Tianfa Forging are incorporated in the PRC as sino-foreign equity joint ventures.

(iii) TG Tech is incorporated in the PRC as a domestic company.

On 7 March 2016, TG Tech entered into a subscription agreement with Nanjing Iron & Steel Co., Ltd. for a subscription, subject to certain conditions and adjustments (if applicable), 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 placing was completed on 6 April 2016 and the equity interests held by the Group in TG Tech were diluted by 11.76% from 100% to 88.24% of the enlarged share capital of TG Tech.

On 6 June 2016, TG Tech entered into a subscription agreement with Nanjing Iron & Steel Co., Ltd. and TG Tech's directors and management for a subscription, subject to certain conditions and adjustments (if applicable), of 65 million TG Tech placing shares at the placing price of RMB1.24 per share for a cash consideration of up to RMB80.6 million. The placing was completed on 7 November 2016 and the equity interests held by the Group in TG Tech were diluted by 14.17% points from 88.24% to 74.07% of the enlarged share capital of TG Tech.

On 8 December 2016, Tianfa Forging sold 0.04% of its equity interests in TG Tech at a consideration of RMB398,790. Equity interests held by the Group in TG Tech decreased from 74.07% to 74.03%.

(iv) TG R&D, International Trading and TG New Materials are incorporated in the PRC as domestic companies.

(v) On 25 January 2016, CTCL(HK) established a wholly owned subsidiary, Tianjia Tech, as a wholly foreign-owned enterprise, which is engaged in the research and development, distribution and sale of cutting tools related products. Up to the date of this report, CTCL(HK) has not paid any capital into Tianjia Tech.

On 5 February 2016, Tianjia Tech established a wholly owned subsidiary, Taifeng Precision, as a domestic company, which is engaged in the research and development, manufacture, distribution and sale of cutting tools related products. Up to the date of this report, Tianjia Tech has not paid any capital into Taifeng Precision.

The following table lists out the information relating to TG Tech, the only subsidiary of the Group which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016	2015
	RMB'000	RMB'000
NCI percentage	**25.97%**	–
Current assets	**400,023**	–
Non-current assets	**198,011**	–
Current liabilities	**(37,398)**	–
Non-current liabilities	**(30,334)**	–
Net assets	**530,302**	–
Carrying amount of NCI	**137,719**	–
Revenue	**257,848**	–
Profit for the year	**28,598**	–
Total comprehensive income	**28,598**	–
Profit allocated to NCI	**5,425**	–
Dividend paid to NCI	**–**	–
Cash flows from operating activities	**(37,664)**	–
Cash flows from investing activities	**(7,133)**	–
Cash flows from financing activities	**129,698**	–

(Expressed in Renminbi unless otherwise indicated)

17 Interest in associates

The following list contains the particulars of associates, all of which are unlisted corporate entities whose market price is not available:

Name of associate		Form of business structure	Place of incorporation and business	Issued and fully paid-up/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principle activity
Jiangsu Tianrun Huafa Logistics Company Limited ("Tianrun Huafa")	(i)	Incorporated	The PRC	RMB5,000,000/ RMB5,000,000	40%	–	40%	Logistics and freight
Xinzhenggong Company Limited ("XZG")	(ii)	Incorporated	Taiwan	TWD200,000,000/ TWD200,000,000	25%	–	25%	Sale of special steel related products
SB Specialty Metals Holdings LLC ("SBSMH")	(iii)	Incorporated	United States of America	USD8,625,000/ USD8,625,000	19.8%	19.8%	–	Sale of special steel related products
Fusion TG Canada Inc ("TGC")	(iv)	Incorporated	Canada	CAD6,000,000/ CAD6,000,000	10%	10%	–	Sale of special steel related products
Jiangsu Ningxing Tiangong Mould Company Limited ("JS NXTG")	(v)	Incorporated	The PRC	RMB5,000,000/ RMB10,000,000	30%	–	30%	Sale of special steel related products
Shenzhen 51 Mocai Technology Company Limited ("51 Mocai")	(vi)	Incorporated	The PRC	RMB–/ RMB50,000,000	10%	–	10%	Sale of moulding materials

Note:

(i) Tianrun Huafa is one of the transportation agencies of the Group in the PRC.

(ii) XZG is the sole distributor of TG Tools' products in Taiwan.

(iii) SBSMH, a distributor of special steel products in the USA, enables the Group to have exposure to this market through local experience.

(iv) On 7 October 2016, the Company formed an associate, TGC, with two independent individuals in Canada. The associate is principally engaged in sales of special steel related products. As at 31 December 2016, both parties have fully paid up the registered capital.

(v) On 2 November 2016, TG Aihe formed an associate, JS NXTG, with Ningbo Ningxing Special Steel Limited Group Co., Ltd. in KunShan, Jiangsu. The associate is principally engaged in sales of steel related products. As at 31 December 2016, both parties have paid half of the registered capital.

(vi) On 20 December 2016, TG Aihe formed an associate, 51 Mocai, with three corporations in Shenzhen. The associate is principally engaged in the e-commerce of mould steels. As at 31 December 2016, the investors have not contributed any capital into 51 Mocai.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

17 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2016 RMB'000	2015 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**46,484**	38,503
Aggregate amounts of the Group's share of those associates'		
– Profit from continuing operations	**7,751**	5,857
– Other comprehensive income	**(2,619)**	(1,351)
Total comprehensive income	**5,132**	4,506

18 Interest in joint ventures

Details of the Group's interest in joint ventures as at 31 December 2016, which are accounted for using the equity method in the consolidated financial statements, are set out below:

Name of joint ventures		Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital and securities	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principle activity
TGT Special Steel Company Limited ("TGT")	(i)	Incorporated	The Republic of Korea	1,000,000 shares of USD1 each	70%	–	70%	Sale of special steel related products
TGK Special Steel PVT Limited ("TGK")	(ii)	Incorporated	India	2,000,000 shares of USD1 each	50%	–	50%	Sale of special steel related products
Czechtools and Materials S.R.O. ("CTM")	(iii)	Incorporated	Czech Republic	2,500,000 shares of CZK1 each	50%	–	50%	Sale of special steel related products
Five Star Special Steel Europe S.R.L ("FSS")	(iv)	Incorporated	Italy	100,000 shares of EUR1 each	60%	–	60%	Sale of special steel related products
TG Middle East Celik San Ltd. ("TME")	(v)	Incorporated	Turkey	100,000 shares of EUR1 each	50%	–	50%	Sale of special steel related products

18 Interest in joint ventures (continued)

Note:

(i) TGT is the sole distributor of the Group's special steel products in Korea.

According to the TGT's Articles of Association, no single shareholder is in a position to control the shareholders' meeting and no single director appointed by either shareholder is in a position to control the Board of Directors. Therefore, although the Group holds 70% of equity interests in TGT, management of the Group consider that the Group does not have the ability to use its power over TGT to affect its returns through its involvement and deemed TGT to be a joint venture of the Group rather than a subsidiary.

(ii) TGK is the sole distributor of the Group's special steel products in India.

(iii) CTM is the sole distributor of the Group's special steel products in the Czech Republic.

(iv) FSS is the sole distributor of the Group's special steel products in Italy.

(v) TME is the sole distributor of the Group's special steel products in Turkey.

(vi) On 12 December 2016, the Group sold all of its equity interest in a joint venture, Tiangong South East Asia PTE. Ltd., at a consideration of RMB656,000. No gain or loss was recognised from this disposal.

Aggregate information of joint ventures that are not individually material:

	2016 RMB'000	2015 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**25,343**	24,509
Aggregate amounts of the Group's share of those joint ventures'		
– (Loss)/profit from continuing operations	**(551)**	6,820
– Other comprehensive income	**(630)**	(623)
Total comprehensive (loss)/income	**(1,181)**	6,197

19 Other financial assets

	Note	**2016 RMB'000**	2015 RMB'000
Available-for-sale securities – listed in the PRC	31(e)/(i)	**96,300**	10,000
– unlisted	(ii)	**–**	–
		96,300	10,000

Note:

(i) As at 31 December 2015, the available-for-sale securities was stated at cost less impairment loss as there was no quoted market price in an active market for the investments. As at 31 December 2016, the available-for-sale securities was stated as fair value due to listing of relevant equity shares. Fair value measurement of available-for-sale securities is disclosed in note 31. Available-for-sale security of RMB96,300,000 (2015: Nil) has been pledged to a bank as security for the Group to borrow bank loans as discussed in note 25.

(ii) On 22 November 2016, TG Tools entered into an investment agreement with Citma Metals Co Ltd to incorporate a new corporation in Mexico, namely Aceros T&C. The corporation is principally engaged in the sale of special steel related products. Equity interest held by TG Tools in Aceros T&C is 15%. Up to the date of this report, TG Tools has not contributed any capital into Aceros T&C.

20 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Raw materials	**35,044**	23,151
Work in progress	**909,531**	890,092
Finished goods	**957,200**	973,400
	1,901,775	1,886,643

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**2,988,899**	3,034,587
Provision for write-down of inventories	**15,043**	3,474
	3,003,942	3,038,061

21 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 (note 21(b))	**(37,310)**	(76,618)
Net trade and bills receivables	**1,367,982**	1,670,158
Prepayments	**125,342**	186,298
Current taxation (note 29)	**–**	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

21 Trade and other receivables (continued)

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 as disclosed in note 25.

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in note 31.

(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. Further details on the Group's credit policy are set out in note 31.

(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 (see note 3(g)(i)).

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

21 Trade and other receivables (continued)

(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 RMB'000	2015 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.

22 Pledged deposits

As at 31 December 2016, bank deposits of RMB180,180,000 (2015: RMB445,389,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities (as described in note 25). The pledge in respect of the bank deposits will be released upon the settlement of the related bills by the Group and the termination of related banking facilities.

The Group's exposure to credit and interest rate risks are disclosed in note 31.

23 Time deposits

As at 31 December 2016, time deposits of RMB640,000,000 (2015: RMB400,000,000) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

The Group's exposure to credit and interest rate risks are disclosed in note 31.

24 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

As at 31 December 2015 and 2016, all of the Group's cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement represented cash at bank and cash on hand.

	2016 **RMB'000**	2015 RMB'000
Cash at bank and on hand	**259,546**	323,486

(b) Reconciliation of profit before taxation to cash generated from operations:

	note	**2016** **RMB'000**	2015 RMB'000
Profit before taxation		**130,916**	85,205
Adjustments for:			
Depreciation	8(c)	**211,877**	190,416
Amortisation of lease prepayments	8(c)	**1,748**	1,655
Interest income	8(a)	**(9,398)**	(8,521)
Interest on bank loans	8(a)	**112,697**	149,240
Loss on disposal of property, plant and equipment	7	**675**	2,541
Dividends received from unlisted securities	6	**–**	(800)
Impairment loss (reversed)/provided for trade and non-trade receivables	8(c)	**(39,308)**	9,886
Share of profits of associates	17	**(7,751)**	(5,857)
Share of losses/(profits) of joint ventures	18	**551**	(6,820)
Equity-settled share-based payment expenses	8(b)	**2,253**	–
Operating profit before changes in working capital		**404,260**	416,945
Change in inventories		**(15,132)**	62,429
Change in trade and other receivables		**354,213**	166,662
Change in trade and other payables		**(226,796)**	33,159
Change in deferred income		**386**	31,625
Net cash generated from operations		**516,931**	710,820

25 Interest-bearing borrowings

	Note	2016 RMB'000	2015 RMB'000
Current			
Secured bank loans	(i)	**263,288**	206,287
Unsecured bank loans	(ii)	**1,753,755**	2,117,856
Current portion of non-current unsecured bank loans	(iii)	**661,869**	256,753
		2,678,912	2,580,896
Non-current			
Secured bank loans	(i)	**60,000**	–
Unsecured bank loans	(iii)	**811,869**	742,731
Less: Current portion of non-current unsecured bank loans	(iii)	**(661,869)**	(256,753)
		210,000	485,978
		2,888,912	3,066,874

(i) The secured bank loans were pledged against certain trade receivables, equity securities, sales contracts and deposits at interest rates ranging from 0.70% to 3.60% per annum (2015: 0.70% to 3.75%)

(ii) Current unsecured bank loans carried interest at annual rates ranging from 1.00% to 5.22% (2015: 1.20% to 6.16%), and were all repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 5.75% (2015: 2.34% to 6.00%).

The current portion and non-current portion of the Group's non-current bank loans were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**661,869**	256,753
Over 1 year but less than 2 years	**210,000**	485,978
	871,869	742,731

As at 31 December, the Group's banking facility with one bank is subject to the fulfilment of covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. Further details of the Group's management of liquidity risk are set out in note 31. As at 31 December 2016, none of the covenants relating to drawn down facilities had been breached (2015: None).

25 Interest-bearing borrowings (continued)

More information about the Group's exposure to interest rate, foreign currency and liquidity risks is disclosed in note 31.

26 Trade and other payables

	2016 **RMB'000**	2015 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

The Group's exposure to liquidity and currency risks related to trade and other payables is disclosed in note 31.

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 **RMB'000**	2015 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

27 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. During 2016, the Group received conditional government grants of RMB6,000,000 (2015: RMB32,787,000) to support the capital investments of the Group. As at 31 December 2016, the carrying amount of the deferred income in respect of government grants after amortisation (note 6 (i)) amounted to RMB49,716,000 (2015: RMB49,330,000) of which RMB43,876,000 (2015: RMB48,168,000) was classified as non-current deferred income.

(Expressed in Renminbi unless otherwise indicated)

28 Equity settled share-based transactions

The Group has a share option scheme which was adopted on 7 July 2007 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 18 August 2014	1,967,000	Immediately on 19 August 2014	5 years and expires at the close business on 18 August 2019
– on 22 July 2016	3,800,000	Immediately on 1 January 2017	1 year and expires at close business on 31 December 2017
Options granted to employees:			
– on 18 August 2014	20,180,000	Immediately on 19 August 2014	5 years and expires at close business on 18 August 2019
– on 22 July 2016	15,170,000	Immediately on 1 January 2017	1 year and expires at close business on 31 December 2017
Total share options granted	41,117,000		

(b) The number and weighted average exercise prices of share options are as follows:

		2016		2015	
	note	**Weighted average exercise price**	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year		**HKD1.925**	**34,284,000**	HKD1.925	34,284,000
Granted during the year	30(c)(ii)	**HKD0.600**	**18,970,000**	–	–
Forfeited during the year		**HKD2.500**	**(9,057,000)**	–	–
		HKD1.275	**(3,080,000)**	–	–
Outstanding at the end of the year		**HKD1.236**	**41,117,000**	HKD1.925	34,284,000
Exercisable at the end of the year		**HKD1.780**	**22,147,000**	HKD1.925	34,284,000

28 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows: (continued)

No share options were exercised during the year ended 31 December 2016.

The options outstanding and exercisable as at 31 December 2016 had an exercise price of HKD1.78 (2015: HKD1.78) and HKD0.60 (2015: Nil) respectively and a weighted average remaining contractual life of 1.90 years (2015: 2.56 years).

(c) Fair values of share options and assumptions:

The fair values of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Granted on 18 August 2014	Granted on 22 July 2016
Fair value at grant date	HKD0.5914 per share option	HKD0.1383 per share option
Share price	HKD1.78 per share	HKD0.56 per share
Exercise price	HKD1.78 per share	HKD0.60 per share
Expected volatility	48.17%	59.58%
Option life	5 years	1 year
Expected dividend yield	3.04%	0.78%
Risk-free interest rate (based on Hong Kong Government Bond)	1.22%	0.40%

The expected volatility is based on the historical volatility of the Company over the contractual life of the options as at the date of valuation. Expected dividend yield is based on historical dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions have not been taken into account in the grant-date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
At the beginning of the year	**(3,192)**	60,240
Provision for PRC income tax for the year	**24,645**	12,956
Provision for Hong Kong Profits Tax for the year	**2,270**	1,900
Hong Kong Profits Tax Paid	**(3,741)**	(3,650)
PRC income tax paid	**(18,422)**	(74,638)
At the end of the year	**1,560**	(3,192)

29 Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets recognised

The components of the deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Deductible tax losses	Unrealised profits	Provision for doubtful debts	Write-down of inventories	Recognition of previously unrecognised deductible temporary differences	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	319	2,574	10,563	1,881	–	15,337
Credited/(charged) to profit or loss	3,395	(95)	931	521	–	4,752
At 31 December 2015	3,714	2,479	11,494	2,402	–	20,089
Credited/(charged) to profit or loss	11,163	422	(5,896)	2,256	2,112	10,057
At 31 December 2016	14,877	2,901	5,598	4,658	2,112	30,146

(c) Deferred tax liabilities recognised and not recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Undistributed profits of subsidiaries	Deductible capitalised borrowing costs	Revaluation of available-for-sale securities	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	10,580	29,529	–	40,109
Charged to profit or loss	–	4,037	–	4,037
At 31 December 2015	10,580	33,566	–	44,146
(Credited)/charged to profit or loss	(5,876)	3,938	–	(1,938)
Charged to reserves	–	–	12,945	12,945
At 31 December 2016	4,704	37,504	12,945	55,153

As at 31 December 2016, deferred tax liabilities of RMB4,704,000 (2015: RMB10,580,000) were recognised in respect of tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries in the foreseeable future. Deferred tax liabilities of RMB116,446,000 (2015: RMB136,379,000) have not been recognised, as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that above undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future.

30 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	note	Share capital RMB'000 note 30(c)(i)	Share premium RMB'000 note 30(d)(i)	Capital redemption reserve RMB'000 note 30(d)(i)	Capital reserve RMB'000 note 30(d)(ii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015		40,167	1,590,760	14,665	3,196	(163,849)	1,484,939
Changes in equity for 2015:							
Total comprehensive income for the year		–	–	–	–	1,426	1,426
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	(96,402)	(96,402)
Balance at 31 December 2015 and 1 January 2016		40,167	1,590,760	14,665	3,196	(258,825)	1,389,963
Total comprehensive income for the year		–	–	–	–	(44,252)	(44,252)
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	(14,912)	(14,912)
Issuance of share options		–	–	–	2,253	–	2,253
Forfeiture of share options		–	–	–	(3,772)	–	(3,772)
Balance at 31 December 2016		40,167	1,590,760	14,665	1,677	(317,989)	1,329,280

30 Capital, reserves and dividends (continued)

(b) 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 the 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.

(c) Share capital

(i) Issued and fully paid share capital

Authorised:

	2016 and 2015	
	No. of Shares ('000)	**Amount USD'000**
Ordinary shares of USD0.0025 each (2015: USD0.0025)	4,000,000	10,000

30 Capital, reserves and dividends (continued)

(c) Share capital

(i) Issued and fully paid share capital

Ordinary shares issued and fully paid:

	2016 and 2015		
	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January and 31 December	**2,220,080**	**5,550**	**40,167**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme and share options issued

On 18 August 2014, the Company granted an aggregate of 22,147,000 share options to employees of the Company to subscribe for ordinary shares of USD0.0025 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 19 August 2014 to 18 August 2019 at an exercise price of HKD1.78 per share, which was equal to the market price of the ordinary shares on the date of grant. The amount payable on acceptance per grant is HKD1.00. Each share option was valued at approximately HKD0.5914 by an external appraiser. During the year ended 31 December 2016 and 2015, no share options were exercised.

On 22 July 2016, the Company granted an aggregate of 18,970,000 share options to employees of the Company to subscribe for ordinary shares of USD0.0025 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 1 January 2017 to 31 December 2017 at an exercise price of HKD0.60 per share.The amount payable on acceptance per grant is HKD1.00. Each share option was valued at approximately HKD0.1383 by an external appraiser. During the year ended 31 December 2016, no share options were exercised.

(iii) Issuance of warrants

On 7 February 2014, an aggregate of 40,000,000 warrants were issued to six parties in accordance with the terms of a warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant. The holders of the warrants shall have the right to subscribe for 40,000,000 of the Company's ordinary shares at an initial exercise price of RMB2.07 per ordinary share (equivalent to approximately HKD2.65 at a fixed exchange rate of HKD1.2807) per share (subject to adjustment pursuant to the terms of the warrants) within 3 years from the date of issue. The consideration received of RMB629,000 net of direct expenses of RMB42,000 was credited to capital reserve.

During the year ended 31 December 2016 and 2015, no warrants were exercised.

There are 40,000,000 warrants outstanding and exercisable as at 31 December 2016 (2015: 40,000,000), which had an exercise price of HKD2.65 (2015: HKD2.65), and a weighted average remaining contractual life of 0.16 years (2015: 1.16 years).

30 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The share premium represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares or the consideration paid for the repurchased shares of the Company. Under the Companies Law of the Cayman Islands, share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to repay its debts as they fall due in the ordinary course of business.

Capital redemption reserve represents the par value of shares repurchased by the Company pursuant to the section 37 of the Cayman Islands Companies Law.

(ii) Capital reserve

The capital reserve comprises the following:

— the waived payables due to TG Group in connection with the acquisition of land use rights and plant in 2007. These waivers of liabilities by TG Group were regarded as equity transactions and recorded in the capital reserve account, and

— the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(m)(ii).

— the consideration received from issuance of warrants in accordance with the terms of warrant placing agreement entered into by the Company and the subscriber net of direct expenses.

(iii) Merger reserve

The merger reserve comprises the excess amount, arising from the Group's reorganisation of Group entities under common control in 2006 and 2007, of its share of the net identifiable assets acquired in these subsidiaries over the consideration paid. The reorganisation transactions were regarded as equity transactions and the excess of the share of the net identifiable assets over the consideration paid was transferred to the merger reserve in the consolidated financial statements.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign equity-accounted investees. The reserve is dealt with in accordance with the accounting policies set out in notes 3(a), 3(b) and 3(q).

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 3(d) and 3(g).

30 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(vi) PRC statutory reserves

Transfers from retained earnings to the following PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

General reserve fund

The subsidiaries in the PRC are required to transfer at least 10% of their profit after taxation, as determined under the PRC accounting regulations, to the general reserve fund until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The general reserve fund can be used to make good losses or be converted into share capital by the issuance of new shares to shareholders in proportion to their existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

Enterprise expansion fund

The enterprise expansion fund can be used to convert into share capital and to develop business.

(e) Distributability of reserves

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,272,771,000 (2015: RMB1,331,935,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.0100 per ordinary share (2015: RMB0.0065), amounting to RMB22,114,000 (2015: RMB14,525,000). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2016, the Group's strategy was to maintain a stable adjusted net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

30 Capital, reserves and dividends (continued)

(f) Capital management (continued)

The group's adjusted net debt-to-capital ratio at 31 December 2016 and 2015 was as follows:

	note	**2016** **RMB'000**	2015 RMB'000
Current liabilities:			
Interest-bearing borrowings	25	**2,678,912**	2,580,896
Non-current liabilities:			
Interest-bearing borrowings	25	**210,000**	485,978
Total debt		**2,888,912**	3,066,874
Add: Proposed dividends	30(b)	**22,114**	14,525
Less: Cash and cash equivalents	24	**(259,546)**	(323,486)
Adjusted net debt		**2,651,480**	2,757,913
Total equity		**4,155,434**	3,876,287
Less: Proposed dividends	30(b)	**(22,114)**	(14,525)
Adjusted capital		**4,133,320**	3,861,762
Adjusted net debt-to-capital ratio		**64%**	71%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31 Financial risk management and fair values

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

31 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(i) Trade and other receivables

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 grants credit terms of 90 to 180 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2016, 0% (2015: 0%) and 17% (2015: 13%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and/or only with counterparties that have a credit rating equal to or better than the Group. Management does not expect any counterparty to fail to meet its obligations.

(iii) Deposits with banks

Substantially all of the bank deposits are deposited with Chinese state-owned banks and local commercial banks. The management does not expect any losses arising from non-performance of these financial institutions.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, as at 31 December 2016, total banking and borrowing facilities available to the Group amounted to RMB5,680,224,000 (2015: RMB5,749,233,000) of which RMB3,301,007,000 (2015: RMB3,595,017,000) had been utilised.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

		2016 Contractual undiscounted cash outflow				
	notes	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 3 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Interest-bearing borrowings	25	**2,718,510**	**217,328**	**–**	**2,935,838**	**2,888,912**
Trade and other payables	26	**1,145,129**	**–**	**–**	**1,145,129**	**1,145,129**
		3,863,639	**217,328**	**–**	**4,080,967**	**4,034,041**

		2015 Contractual undiscounted cash outflow				
	notes	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Interest-bearing borrowings	25	2,627,408	491,234	–	3,118,642	3,066,874
Trade and other payables	26	1,347,335	–	–	1,347,335	1,347,335
		3,974,743	491,234	–	4,465,977	4,414,209

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars (USD), Euros (EUR) and Hong Kong Dollars (HKD).

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

31 Financial risk management and fair values (continued)

(c) Currency risk

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency are excluded.

	2016 Exposure to foreign currencies (expressed in RMB)			2015 Exposure to foreign currencies (expressed in RMB)		
	USD RMB'000	**EUR RMB'000**	**HKD RMB'000**	USD RMB'000	EUR RMB'000	HKD RMB'000
Trade and other receivables	**60,930**	**109,571**	**–**	94,724	88,615	–
Cash and cash equivalents	**7,620**	**16,631**	**5,919**	7,635	3,533	9,602
Trade and other payables	**(22,791)**	**(111,322)**	**–**	(12,980)	(21,611)	–
Interest-bearing borrowings	**(252,854)**	**(253,929)**	**–**	(405,201)	(133,188)	–
Net exposure arising from recognised assets and liabilities	**(207,095)**	**(239,049)**	**5,919**	(315,822)	(62,651)	9,602

31 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had increased at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**5%**	**(9,010)**	5%	(12,408)
EUR	**10%**	**(20,122)**	10%	(1,757)
HKD	**5%**	**292**	5%	425

Decrease in foreign exchange rates would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency. The analysis is performed on the same basis as for 2015.

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings, pledged deposits and time deposits.

Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for the Group to issue bank acceptance bills and other banking facilities.

Interest-bearing borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 25.

31 Financial risk management and fair values (continued)

(d) Interest rate risk

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the end of the reporting period:

	2016		2015	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.70%–5.50%**	**(1,271,738)**	0.70%–6.16%	(1,328,637)
Pledged deposits	**1.15%–1.75%**	**180,180**	1.15%–3.30%	445,389
Time deposits	**1.35%–1.75%**	**640,000**	1.55%–2.17%	400,000
		(451,558)		(483,248)
Variable rate instruments				
Interest-bearing borrowings	**1.00%–5.75%**	**(1,617,174)**	1.20%–6.00%	(1,738,237)

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB14,113,619 (2015: RMB13,279,880).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

31 Financial risk management and fair values (continued)

(e) Fair values measurement

(i) Financial assets measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

Available-for-sale equity securities (listed) as mentioned in note 19 is measured at fair value determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs are observable, the instrument is included in Level 2.

(ii) Financial assets and liabilities carried at other than fair value

Except for available-for-sale equity securities (listed) mentioned in note 31(e)(i), all financial instruments measured at other than fair value are carried at cost or amortised cost that are not materially different from their fair values as at 31 December 2016 and 2015 due to either the short maturities of these financial instruments or variable market interest rates for long-term bank borrowings.

32 Commitments

(a) Capital commitments outstanding as at 31 December 2016 not provided for in the consolidated financial statements were as follows:

	2016 **RMB'000**	2015 RMB'000
Contracted for	**56,921**	45,449
Authorised but not contracted for	**152,277**	422,496
	209,198	467,945

(b) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**1,468**	2,198

32 Commitments (continued)

(b) As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases were payable as follows: (continued)

The Group leases certain properties located in the PRC and Hong Kong as the Group's offices under operating leases. The leases run for initial periods of 1–3 years.

(c) Investment commitments

As at 31 December 2016, the Group had an outstanding commitment of RMB5,000,000 and MXN150,000 (equivalent to RMB5,023) in respect of its investment in a newly established associate as mentioned in note 17 and a newly established foreign entity as mentioned in note 19, respectively, which is not provided for in the consolidated financial statements.

33 Material related party transactions

(a) Key management personnel remuneration

Key management personnel remuneration represents amounts paid to the Company's directors as disclosed in note 10 and the highest paid employees as disclosed in note 11.

(b) Transactions with related companies

The Group has transactions with a company controlled by the controlling shareholder ("controlling shareholder's company"), immediate parent, associates and joint ventures. The following is a summary of principal related party transactions carried out by the Group with these related parties for the years presented.

(i) Significant related party transactions

	2016 RMB'000	2015 RMB'000
Sale of goods to:		
Joint ventures	**249,584**	249,802
Associates	**60,997**	26,845
	310,581	276,647
Freight expense to:		
Associates	**2,250**	11,984
Lease expense to:		
Controlling shareholder's company	**1,000**	1,000
Lease income from:		
Associates	**–**	50

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

33 Material related party transactions (continued)

(b) Transactions with related companies (continued)

(ii) Significant related party balances

	2016 **RMB'000**	2015 RMB'000
Trade and other receivables due from		
Joint ventures	**178,977**	151,775
Associates	**19,049**	8,012
	198,026	159,787
Trade and other payables due to		
Associates	**11,015**	5,033
Controlling shareholder's company	**–**	500
	11,015	5,533

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of lease expenses paid to the controlling shareholder's company mentioned in note 33(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules. Apart from these transactions, none of the other related party transactions mentioned in note 33 fall under the definition of a connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34 Company-level statement of financial position

	note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		**11**	11
Investments in subsidiaries		**1,324,580**	1,472,994
Interest in associates		**30,376**	24,121
		1,354,967	1,497,126
Current assets			
Cash and cash equivalents		**5,640**	8,034
		5,640	8,034
Current liabilities			
Interest-bearing borrowings		**31,216**	83,612
Trade and other payables		**111**	2,108
		31,327	85,720
Net current liabilities		**(25,687)**	(77,686)
Total assets less current liabilities		**1,329,280**	1,419,440
Non-current liabilities			
Interest-bearing borrowings		**–**	29,477
		–	29,477
Net assets		**1,329,280**	1,389,963
Capital and reserves			
Share capital	30(a)/(c)	**40,167**	40,167
Reserves	30(a)	**1,289,113**	1,349,796
Total equity		**1,329,280**	1,389,963

Approved and authorised for issue by the board of directors on 28 March 2017.

Zhu Xiaokun *Director*

Yan Ronghua *Director*

35 Accounting estimates and judgements

Note 15, 28(c) and 31(e) contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are as follows:

(a) Impairment losses on trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of the ageing analysis and past collection history of each individual customer. A considerable level of judgement is exercised by the directors when assessing the creditworthiness and collectability of each receivable. Any increase or decrease in the provision for bad and doubtful debts would affect the consolidated statement of profit or loss in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and historical experience of distributing and selling products of a similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market conditions. Management reassess the estimations at each end of the reporting period.

(d) Income taxes

Determining income tax provisions involves judgement regarding the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

36 Immediate and ultimate controlling party

At 31 December 2016, the directors consider the immediate parent and ultimate controlling party of the Group to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

(Expressed in Renminbi unless otherwise indicated)

37 Non-adjusting events after the reporting period

On 9 March 2017, CTCL(HK) established a wholly owned subsidiary, Jiangsu Tiangong Investment Management Company Limited ("TG Investment"), which is engaged in investment management and management consulting. Up to the date of this report, CTCL(HK) has not contributed any capital into TG Investment.

After 31 December 2016, the directors proposed a final dividend of RMB0.0100 per ordinary share on 28 March 2017. Further details are disclosed in note 30(b).

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes – Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments,IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

IFRS 9, Financial instruments (continued)

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

- The classification of debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI, then only dividend income from that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTOCI will continue with their respective classification and measurements upon the adoption of IFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to IFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 3(d) and 3(g). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

3. FINANCIAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014

The following financial information is extracted from the annual report of the Company for the year ended 31 December 2015.

Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

(Expressed in Renminbi)

	note	2015 RMB'000	2014 RMB'000
Revenue	5	**3,429,397**	4,535,670
Cost of sales		**(3,038,061)**	(3,626,838)
Gross profit		**391,336**	908,832
Other income	6	**19,324**	26,517
Distribution expenses		**(67,855)**	(70,500)
Administrative expenses		**(115,404)**	(123,834)
Other operating expenses	7	**(14,154)**	(58,637)
Profit from operations		**213,247**	682,378
Finance income		**8,521**	9,337
Finance expenses		**(149,240)**	(151,236)
Net finance costs	8(a)	**(140,719)**	(141,899)
Share of profits/(losses) of associates	17	**5,857**	(2,702)
Share of profits of joint ventures	18	**6,820**	6,391
Profit before taxation	8	**85,205**	544,168
Income tax	9	**(13,074)**	(81,421)
Profit for the year		**72,131**	462,747
Attributable to:			
Equity shareholders of the Company		**72,623**	463,466
Non-controlling interests		**(492)**	(719)
Profit for the year		**72,131**	462,747
Earnings per share (RMB)	12		
Basic		**0.033**	0.230
Diluted		**0.033**	0.230

The notes on pages 41 to 102 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(b).

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2015

(Expressed in Renminbi)

	2015 RMB'000	2014 RMB'000
Profit for the year	**72,131**	462,747
Other comprehensive income for the year (after tax and reclassification adjustment)		
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)	**(27,787)**	(1,404)
Total comprehensive income for the year	**44,344**	461,343
Attributable to:		
Equity shareholders of the Company	**44,836**	462,062
Non-controlling interests	**(492)**	(719)
Total comprehensive income for the year	**44,344**	461,343

The notes on pages 41 to 102 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2015

(Expressed in Renminbi)

	note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	13	**3,243,542**	2,998,727
Lease prepayments	14	**74,372**	75,512
Goodwill	15	**21,959**	22,086
Interest in associates	17	**38,503**	33,997
Interest in joint ventures	18	**24,509**	12,998
Other financial assets	19	**10,000**	10,000
Deferred tax assets	29(b)	**20,089**	15,337
		3,432,974	3,168,657
Current assets			
Inventories	20	**1,886,643**	1,952,781
Trade and other receivables	21	**1,895,480**	2,114,526
Pledged deposits	22	**445,389**	404,400
Time deposits	23	**400,000**	543,100
Cash and cash equivalents	24	**323,486**	181,373
		4,950,998	5,196,180
Current liabilities			
Interest-bearing borrowings	25	**2,580,896**	2,342,903
Trade and other payables	26	**1,347,335**	1,340,910
Current taxation	29(a)	**—**	60,240
Deferred income	27	**1,162**	1,162
		3,929,393	3,745,215
Net current assets		**1,021,605**	1,450,965
Total assets less current liabilities		**4,454,579**	4,619,622
Non-current liabilities			
Interest-bearing borrowings	25	**485,978**	633,149
Deferred income	27	**48,168**	16,543
Deferred tax liabilities	29(c)	**44,146**	40,109
		578,292	689,801
Net assets		**3,876,287**	3,929,821

The notes on pages 41 to 102 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2015

(Expressed in Renminbi)

	note	**2015** **RMB'000**	2014 RMB'000
Capital and reserves			
Share capital	30(a)/(c)	**40,167**	40,167
Reserves	30(d)	**3,836,120**	3,887,758
Total equity attributable to equity shareholders of the Company		**3,876,287**	3,927,925
Non-controlling interests		**—**	1,896
Total equity		**3,876,287**	3,929,821

Approved and authorised for issue by the Board on 30 March 2016.

Zhu Xiao Kun	**Yan Rong Hua**
Director	*Director*

The notes on pages 41 to 102 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
		Share Capital	**Share premium**	**Capital redemption reserve**	**Capital reserve**	**Merger reserve**	**Exchange reserve**	**PRC statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB00**
	note	**(note 30(c)(i))**	**(note 30(d)(i))**	**(note 30(d)(i))**	**(note 30(d)(ii))**	**(note 30(d)(iii))**	**(note 30(d)(iv))**	**(note 30(d)(v))**				
Balance at 1 January 2015		**40,167**	**1,590,760**	**492**	**74,367**	**91,925**	**(6,472)**	**519,106**	**1,617,580**	**3,927,925**	**1,896**	**3,929,821**
Changes in equity for 2015												
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**72,623**	**72,623**	**(492)**	**72,131**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**(27,787)**	**—**	**—**	**(27,787)**	**—**	**(27,787)**
Total comprehensive income		**—**	**—**	**—**	**—**	**—**	**(27,787)**	**—**	**72,623**	**44,836**	**(492)**	**44,344**
Dividends approved in respect of the previous year	30(b)(ii)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(96,402)**	**(96,402)**	**—**	**(96,402)**
Transfer to reserve		**—**	**—**	**—**	**—**	**—**	**—**	**11,301**	**(11,301)**	**—**	**—**	**—**
Disposal of a subsidiary		**—**	**—**	**—**	**—**	**—**	**—**	**(72)**	**—**	**(72)**	**(1,404)**	**(1,476)**
Balance at 31 December 2015		**40,167**	**1,590,760**	**492**	**74,367**	**91,925**	**(34,259)**	**530,335**	**1,582.5**	**3,876,287**	**—**	**3,876,287**

		Attributable to equity shareholders of the Company										
		Share Capital	Share premium	Capital redemption reserve	Capital reserve	Merger reserve	Exchange reserve	PRC statutory reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB00
	note	(note 30(c)(i))	(note 30(d)(i))	(note 30(d)(i))	(note 30(d)(ii))	(note 30(d)(iii))	(note 30(d)(iv))	(note 30(d)(v))				
Balance at 1 January 2014		35,962	1,221,996	–	61,765	91,925	(5,068)	428,155	1,341,121	3,175,856	2,615	3,178,471
Changes in equity for 2014												
Profit for the year		–	–	–	–	–	–	–	463,466	463,466	(719)	462,747
Other comprehensive income		–	–	–	–	–	(1,404)	–	–	(1,404)	–	(1,404)
Total comprehensive income		–	–	–	–	–	(1,404)	–	463,466	462,062	(719)	461,343
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	–	–	–	(96,056)	(96,056)	–	(96,056)
Transfer to reserve		–	–	–	–	–	–	90,951	(90,951)	–	–	–
Exercise of share options	30(c)(ii)	93	9,117	–	(3,157)	–	–	–	–	6,053	–	6,053
Issuance of share options	30(c)(ii)	–	–	–	14,173	–	–	–	–	14,173	–	14,173
Shares allotment	30(c)(iii)	4,604	393,323	–	–	–	–	–	–	397,927	–	397,927
Issuance of warrants	30(c)(iv)	–	–	–	1,586	–	–	–	–	1,586	–	1,586
Repurchase of own shares	30(c)(v)	(492)	(33,676)	492	–	–	–	–	–	(33,676)	–	(33,676)
Balance at 31 December 2014		40,167	1,590,760	492	74,367	91,925	(6,472)	519,106	1,617,580	3,927,925	1,896	3,929,821

The notes on pages 41 to 102 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2015

(Expressed in Renminbi)

	note	2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations	24(b)	**710,820**	648,467
Income tax paid		**(78,288)**	(82,271)
Net cash generated from operating activities		**632,532**	566,196
Investing activities			
Payment for the purchase of property, plant and equipment		**(443,014)**	(691,003)
Payment for the purchase of lease prepayment		**(515)**	(7,745)
Proceeds from disposal of property, plant and equipment		**3,335**	2,077
Net proceeds from maturity of time deposits		**143,100**	10,400
Net payment for purchase of pledged deposits		**(40,989)**	(154,164)
Interest received	8(a)	**8,521**	9,337
Proceeds from disposal of a subsidiary		**(2,084)**	—
Dividends received from unlisted securities		**800**	800
Dividends received from an associate		**—**	1,817
Payment for establishment of joint ventures		**(5,314)**	(1,080)
Payment for capital injection in joint ventures		**—**	(870)
Net cash used in investing activities		**(336,160)**	(830,431)
Financing activities			
Proceeds from new interest-bearing borrowings		**4,485,757**	4,061,262
Repayment of interest-bearing borrowings		**(4,394,935)**	(3,811,815)
Interest paid		**(151,654)**	(167,002)
Dividends paid to equity shareholders of the Company	30(b)(ii)	**(96,402)**	(96,056)
Proceeds from exercise of share options	30(c)(ii)	**—**	6,053
Proceeds from shares allotment	30(c)(iii)	**—**	397,927
Proceeds from issuance of warrants	30(c)(iv)	**—**	1,586
Payment for repurchase of shares	30(c)(v)	**—**	(33,676)
Net cash (used in)/generated from financing activities		**(157,234)**	358,279
Net increase in cash and cash equivalents		**139,138**	94,044
Cash and cash equivalents at 1 January		**181,373**	88,406
Effect of foreign exchange rate changes		**2,975**	(1,077)
Cash and cash equivalents at 31 December		**323,486**	181,373

The notes on pages 41 to 102 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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 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.

The Company and its subsidiaries are collectively referred to as the "Group".

2 Basis of preparation

(a) Statement of compliance

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"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out in note 3.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The consolidated financial statements of the Group as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

(c) Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Group entities, except as explained in note 4, which addresses changes in accounting policies.

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(j) and (k) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(d)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint ventures (see note 3(b)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3 Significant accounting policies (continued)

(b) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 3(c) and (g)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(d)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 3(g)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Significant accounting policies (continued)

(c) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(g)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(d) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

The Group's investments in equity securities are classified as available-for-sale financial assets. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 3(g)). Dividend income from equity securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 3(p)(iii).

When the investments are derecognised or impaired (see note 3(g)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

3 Significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see note 3(g)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Plant and buildings	20 years
— Machinery	10–20 years
— Motor vehicles	8 years
— Office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents plant and buildings under construction and equipment pending installation, and is stated at cost less impairment losses (see note 3(g)). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Significant accounting policies (continued)

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments in the consolidated statement of financial position represent the cost of land use rights paid to the People's Republic of China (the "PRC") land bureau. Land use rights are carried at cost less accumulated amortisation and accumulated impairment losses (see note 3(g)). Amortisation is charged to the consolidated statement of profit or loss on a straight-line basis over the respective periods of the rights.

(g) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 3(b)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(g)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(g)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— intangible assets;

— prepayments for leasehold land classified as being held under an operating lease;

— goodwill; and

— investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment:

— *Calculation of recoverable amount*
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units ("CGUs") are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 3(g)(i) and 3(g)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Significant accounting policies (continued)

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(m) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3 Significant accounting policies (continued)

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Significant accounting policies (continued)

(n) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(o)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

3 Significant accounting policies (continued)

(o) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Significant accounting policies (continued)

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

3 Significant accounting policies (continued)

(s) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Chairman (the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

4 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.

5 Revenue and segment reporting

Revenue represents mainly the sales value of high alloy steel, including high speed steel ("HSS"), die steel ("DS"), HSS cutting tools, trading of goods and titanium alloy after eliminating intercompany transactions. The Group has five reportable segments, as described below, which are the Group's product divisions. For each of the product divisions the Chairman (the chief operating decision maker) reviews internal management reports on at least a monthly basis. No operating segments have been aggregated to form the following reportable segments. The following summary describes the operations in each of the Group's reportable segments:

— *HSS*	The HSS segment manufactures and sells HSS for the steel industry.
— *HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.
— *DS*	The DS segment manufactures and sells DS for the steel industry.
— *Trading of goods*	The trading of goods segment sells billet steel and screw steel.
— *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Chairman (the chief operating decision maker) monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in associates, interest in joint ventures, other financial assets, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other 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.

5 Revenue and segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

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 are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

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

	Year ended and as at 31 December 2014					
	HSS RMB'000	HSS cutting tools RMB'000	DS RMB'000	Trading of goods RMB'000	Titanium alloy RMB'000	Total RMB'000
Revenue from external customers	1,080,892	550,448	1,660,175	1,111,431	132,724	4,535,670
Inter-segment revenue	227,993	–	–	–	–	227,993
Reportable segment revenue	1,308,885	550,448	1,660,175	1,111,431	132,724	4,763,663
Reportable segment profit (adjusted EBIT)	291,451	49,139	477,747	2,868	17,127	838,332
Reportable segment assets	2,383,834	1,233,701	3,177,264	25,499	305,367	7,125,665
Reportable segment liabilities	567,810	244,634	492,218	–	27,725	1,332,387

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(Expressed in Renminbi unless otherwise indicated)

5 Revenue and segment reporting (continued)

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

	2015 RMB'000	2014 RMB'000
Revenue		
Reportable segment revenue	**3,664,933**	4,763,663
Elimination of inter-segment revenue	**(235,536)**	(227,993)
Consolidated revenue	**3,429,397**	4,535,670

	2015 RMB'000	2014 RMB'000
Profit		
Reportable segment profit	**323,481**	838,332
Net finance costs	**(140,719)**	(141,899)
Share of profits/(losses) of associates	**5,857**	(2,702)
Share of profits of joint ventures	**6,820**	6,391
Unallocated head office and corporate expenses	**(110,234)**	(155,954)
Consolidated profit before taxation	**85,205**	544,168

5 Revenue and segment reporting (continued)

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

	2015 RMB'000	2014 RMB'000
Assets		
Reportable segment assets	**7,092,375**	7,125,665
Trade and other receivables (note 21)	**3,192**	—
Interest in associates	**38,503**	33,997
Interest in joint ventures	**24,509**	12,998
Other financial assets	**10,000**	10,000
Deferred tax assets	**20,089**	15,337
Pledged deposits	**445,389**	404,400
Time deposits	**400,000**	543,100
Cash and cash equivalents	**323,486**	181,373
Unallocated head office and corporate assets	**26,429**	37,967
Consolidated total assets	**8,383,972**	8,364,837
Liabilities		
Reportable segment liabilities	**1,368,429**	1,332,387
Interest-bearing borrowings	**3,066,874**	2,976,052
Current taxation	**—**	60,240
Deferred tax liabilities	**44,146**	40,109
Unallocated head office and corporate liabilities	**28,236**	26,228
Consolidated total liabilities	**4,507,685**	4,435,016

(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).

5 Revenue and segment reporting (continued)

(c) Geographical information (continued)

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.

	2015 **RMB'000**	2014 RMB'000
Revenue		
The PRC	**2,429,261**	3,326,374
North America	**335,144**	475,558
Europe	**417,166**	416,311
Asia (other than the PRC)	**198,636**	266,592
Others	**49,190**	50,835
Total	**3,429,397**	4,535,670

For the year ended 31 December 2015, the Group's customer base is diversified and includes one customer (2014: no customer) with whom transactions have exceeded 10% of the Group's revenue.

6 Other income

	note	**2015** **RMB'000**	2014 RMB'000
Government grants	(i)	**6,808**	22,300
Net foreign exchange gain		**7,632**	—
Dividend income from unlisted securities	(ii)	**800**	800
Reversal of provision for doubtful debts		**312**	—
Others		**3,772**	3,417
		19,324	26,517

note:

(i) TG Tools, a wholly-owned subsidiary of the Company located in the PRC, received unconditional grants amounting to RMB5,646,000 (2014: RMB21,138,000) from the local government in Danyang to reward its contribution to local economy and encourage its innovation of technology. It also recognised amortisation of government grants related to assets of RMB1,162,000 (2014: RMB1,162,000) during the year ended 31 December 2015 (note 27).

(ii) The Group received dividends totalling to RMB800,000 (2014: RMB800,000) from its unlisted equity investments (note 19) during the year ended 31 December 2015.

7 Other expenses

	2015 RMB'000	2014 RMB'000
Impairment loss on trade receivables (note 21(b))	**10,198**	39,448
Impairment loss on non-trade receivables	**—**	836
Net loss on disposal of property, plant and equipment	**2,541**	8,265
Net foreign exchange loss	**—**	7,413
Others	**1,415**	2,675
	14,154	58,637

8 Profit before taxation

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

(a) Net finance costs

	2015 RMB'000	2014 RMB'000
Interest income	**(8,521)**	(9,337)
Finance income	**(8,521)**	(9,337)
Interest on bank loans	**169,427**	174,093
Less: interest expense capitalised into property, plant and equipment under construction*	**(20,187)**	(22,857)
Finance expenses	**149,240**	151,236
Net finance costs	**140,719**	141,899

* The borrowing costs have been capitalised at a rate of 4.90% per annum (2014: 5.69%).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 Profit before taxation (continued)

(b) Staff costs

	2015 **RMB'000**	2014 RMB'000
Salaries, wages and other benefits	**170,237**	175,877
Contributions to defined contribution retirement plans	**19,003**	18,391
Equity-settled share-based payment expenses (note 28)	**—**	14,173
	189,240	208,441

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

	note	**2015** **RMB'000**	2014 RMB'000
Cost of inventories*		**3,038,061**	3,626,838
Depreciation of property, plant and equipment	13	**190,416**	173,770
Amortisation of lease prepayments	14	**1,655**	1,622
Impairment losses on trade and other receivables		**9,886**	40,284
Auditor's remuneration		**3,050**	2,700
Operating lease charges		**2,683**	2,312

* Cost of inventories includes RMB319,911,000 (2014: RMB308,735,000) 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 8(b) for each of these types of expenses.

9 Income tax in the consolidated statement of profit or loss

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

	2015 RMB'000	2014 RMB'000
Current tax		
Provision for PRC income tax (note 29(a))	**12,956**	67,878
Provision for Hong Kong Profits Tax (note 29(a))	**1,900**	2,293
	14,856	70,171
Deferred tax		
Origination and reversal of temporary differences	**(1,782)**	11,250
	13,074	81,421

(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, Tiangong Aihe Company Limited ("TG Aihe") and Jiangsu Tiangong Technology Company Limited ("TG Tech") are subject to a preferential income tax rate of 15% in 2015 available to enterprises which qualify as a High and New Technology Enterprise (2014: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2014: 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% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2015.

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(Expressed in Renminbi unless otherwise indicated)

9 Income tax in the consolidated statement of profit or loss (continued)

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

	2015 RMB'000	2014 RMB'000
Profit before taxation	**85,205**	544,168
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2014: 25%)	**21,301**	136,042
Effect of preferential tax rates	**(2,910)**	(49,567)
Effect of different tax rates	**(1,037)**	(1,159)
Effect of change of tax rates	**—**	357
Tax effect of non-deductible expenses	**163**	3,132
Tax effect of non-taxable income	**(2,011)**	(1,120)
Withholding tax on undistributed profits of subsidiaries	**—**	987
Tax effect of super deduction for research and development expenses	**(4,500)**	(900)
Under/(Over)-provision in respect of prior year	**2,068**	(6,351)
Actual tax expense	**13,074**	81,421

10 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2015

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Bonuses RMB'000	Share-based payments (note) RMB'000	Total RMB'000
Executive directors						
Zhu Xiaokun	—	128	14	7,500	—	7,642
Wu Suojun	—	134	13	43	—	190
Yan Ronghua	—	135	13	41	—	189
Jiang Guangqing	—	113	13	42	—	168
Independent non-executive directors						
Yin Shuming	48	—	—	—	—	48
Gao Xiang	36	—	—	—	—	36
Lee Cheuk Yin, Dannis	76	—	—	—	—	76
Total	160	510	53	7,626	—	8,349

Year ended 31 December 2014

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Bonuses RMB'000	Share-based payments (note) RMB'000	Total RMB'000
Executive directors						
Zhu Xiaokun	—	125	14	7,500	220	7,859
Wu Suojun	—	127	13	48	382	570
Yan Ronghua	—	139	13	52	132	336
Jiang Guangqing	—	91	13	47	132	283
Independent non-executive directors						
Yin Shuming	48	—	—	—	—	48
Gao Xiang	36	—	—	—	—	36
Lee Cheuk Yin, Dannis	76	—	—	—	—	76
Total	160	482	53	7,647	866	9,208

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(Expressed in Renminbi unless otherwise indicated)

10 Directors' emoluments (continued)

note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(m)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 28.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2014: three) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2014: two) individuals are as follows:

	2015	2014
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**830**	795
Share-based payments	**—**	144
Bonuses	**515**	259
Contributions to retirement benefit schemes	**22**	13
	1,367	1,211

The emoluments of the three (2014: two) individuals with the highest emoluments are within the band of nil to HKD1,000,000.

(Expressed in Renminbi unless otherwise indicated)

12 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 RMB72,623,000 (2014: RMB463,466,000) and the weighted average of 2,220,080,000 ordinary shares (2014: 2,013,941,800 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2015	2014
Issued ordinary shares at 1 January	**2,220,080,000**	1,941,160,000
Effect of shares allotment	**—**	69,166,667
Effect of exercise of share options	**—**	5,819,444
Effect of repurchase of shares	**—**	(2,204,311)
Weighted average number of ordinary shares at 31 December	**2,220,080,000**	2,013,941,800

(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 RMB72,623,000 (2014: RMB463,466,000) and the weighted average number of ordinary shares of 2,220,080,000 shares (2014: 2,015,259,577 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2015	2014
Weighted average number of ordinary shares at 31 December	**2,220,080,000**	2,013,941,800
Effect of equity settled share-based transactions (note 28)	**—**	875,562
Effect of warrants	**—**	442,215
Weighted average number of ordinary shares (diluted) at 31 December	**2,220,080,000**	2,015,259,577

The calculation of diluted earnings per share for the year ended 31 December 2015 did not include the potential effects of 34,284,000 (2014: 31,204,000) shares options and 40,000,000 (2014: 40,000,000) shares warrants during the year as they have anti-dilutive effects on the basic earnings per share for the year.

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(Expressed in Renminbi unless otherwise indicated)

13 Property, plant and equipment

	Plant and buildings	Machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
Balance at 1 January 2014	548,082	2,147,448	9,674	59,093	490,217	3,254,514
Additions	3,133	110,949	2,940	5,685	591,153	713,860
Transfer from construction in process	223,811	348,377	—	—	(572,188)	—
Disposals	(8,685)	(137,384)	(1,701)	(25,134)	—	(172,904)
Balance at 31 December 2014	766,341	2,469,390	10,913	39,644	509,182	3,795,470
Additions	2,562	104,611	—	656	333,278	441,107
Transfer from construction in process	123,223	427,672	—	—	(550,895)	—
Disposals	—	(62,249)	(1,040)	(20)	—	(63,309)
Balance at 31 December 2015	892,126	2,939,424	9,873	40,280	291,565	4,173,268
Accumulated depreciation:						
Balance at 1 January 2014	(145,184)	(592,765)	(2,685)	(44,901)	—	(785,535)
Charge for the year	(32,811)	(133,853)	(1,210)	(5,896)	—	(173,770)
Written back on disposals	8,250	129,482	1,004	23,826	—	162,562
Balance at 31 December 2014	(169,745)	(597,136)	(2,891)	(26,971)	—	(796,743)
Charge for the year	(36,770)	(147,004)	(1,188)	(5,454)	—	(190,416)
Written back on disposals	—	57,097	324	12	—	57,433
Balance at 31 December 2015	(206,515)	(687,043)	(3,755)	(32,413)	—	(929,726)
Net book value:						
At 31 December 2015	685,611	2,252,381	6,118	7,867	291,565	3,243,542
At 31 December 2014	596,596	1,872,254	8,022	12,673	509,182	2,998,727

(i) All plant and buildings are located in the PRC.

(ii) Pursuant to the lease agreements entered into between the Group and Jiangsu Tiangong Group Company Limited ("TG Group") on 6 January 2010, the Group is required to pay RMB600,000 per annum for the lease of office premises from the TG Group effective from 1 January 2010 to 31 December 2016, and to pay RMB400,000 per annum for the lease of amenity facilities from the TG Group effective from 1 January 2010 to 31 December 2016 (see note 33(b)).

14 Lease prepayments

	RMB'000
Cost:	
At 1 January 2014	81,387
Additions	7,745
At 31 December 2014	89,132
Additions	515
At 31 December 2015	89,647
Accumulated amortisation:	
At 1 January 2014	(11,998)
Charge for the year	(1,622)
At 31 December 2014	(13,620)
Charge for the year	(1,655)
At 31 December 2015	(15,275)
Net book value:	
At 31 December 2015	74,372
At 31 December 2014	75,512

The amortisation charge for the year is included in "administration expenses" in the consolidated statement of profit or loss.

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(Expressed in Renminbi unless otherwise indicated)

15 Goodwill

	2015 RMB'000	2014 RMB'000
Cost:		
Balance at 1 January	**22,086**	22,086
Disposal of a subsidiary	**(127)**	—
Balance at 31 December	**21,959**	22,086
Accumulated impairment losses:		
At 31 December 2014 and 2015	**—**	—
Carrying amount:		
At 31 December	**21,959**	22,086

For the purpose of impairment test, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill is allocated to the Group's CGUs identified according to the reportable segments as follows:

	2015 RMB'000	2014 RMB'000
DS	**21,959**	21,959
HSS cutting tools	**—**	127
	21,959	22,086

The recoverable amounts of the CGUs were determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate, growth rate and gross margin. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolated cash flows for the following eighteen years based on an estimated growth rate of 3%–10% (2014: 3%–10%), a discount rate of 9.15% (2014: 15.00%) and a gross margin of 10%–18% (2014: 15%–18%). The growth rate used does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined the budgeted gross margin and growth rate based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The recoverable amounts of the CGUs are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment of goodwill is recognised in the consolidated statement of profit or loss.

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16 Interests in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company		Place and date of incorporation	Proportion of ownership interest Direct	Indirect	Issued and fully paid-up/registered capital	Principal activity
China Tiangong Company Limited		British Virgin Islands, 14 August 2006	100%	–	USD–/ USD50,000	Investment holding
TG Tools	(i)	The PRC, 7 July 1997	–	100%	RMB1,748,031,236/ RMB1,810,000,000	Manufacture and sale of HSS and cutting and drilling tools
TG Aihe	(ii)	The PRC, 5 December 2003	–	100%	RMB401,438,000/ RMB401,438,000	Manufacture and sale of DS
Danyang Tianfa Forging Company Limited ("Tianfa Forging")	(ii)	The PRC, 11 October 2000	–	100%	USD18,600,000/ USD18,600,000	Precision forging and sale of HSS
China Tiangong (Hong Kong) Company Limited ("CTCL(HK)")		Hong Kong, 13 June 2008	–	100%	1 share	Investment holding
TG Tech	(iii)	The PRC, 27 January 2010	–	100%	RMB300,000,000/ RMB300,000,000	Manufacture and sale of alloy, steel, cutting and drilling tools and titanium-related products
TG Development		Hong Kong, 15 February 2012	–	100%	5,500,000 shares	Trading of alloy, steel, cutting and drilling tools and titanium-related products
Jiangsu Tiangong Mould Steel R&D Center Company Limited ("TG R&D")	(iii)	The PRC, 5 March 2012	–	100%	RMB5,000,000/ RMB5,000,000	Research and development of alloy, steel, and titanium-related products
Jiangsu Tiangong International Trading Company Limited ("International Trading")	(iii)	The PRC, 6 March 2014	–	100%	RMB20,000,000/ RMB50,000,000	Trading of chemical goods, silicon iron, aluminum and billet steel
Jurong Tiangong New Materials Technology Company Limited ("TG New Materials")	(iii)	The PRC, 29 July 2015	–	100%	RMB–/ RMB300,000,000	Research and development, manufacture and sale of HSS and DS related products

Notes to the Financial Statements

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16 Interests in subsidiaries (continued)

note:

(i) TG Tools is a wholly foreign-owned enterprise incorporated in the PRC.

(ii) TG Aihe and Tianfa Forging are incorporated in the PRC as sino-foreign equity joint ventures.

(iii) TG Tech, TG R&D, International Trading and TG New Materials are incorporated in the PRC as domestic companies.

On 29 July 2015, TG Aihe established a wholly owned subsidiary, TG New Materials, which is engaged in the research and development, manufacturing and sale of HSS and DS related products. Up to the date of this report, TG Aihe had not contributed any capitals into TG New Materials.

On 5 August 2015, the Group sold all of its equity interest in a subsidiary, Changchun FAW Miracle Jingrui Tools Company Limited.

The directors are of the view that none of the Group's subsidiaries have a material non-controlling interest as at 31 December 2015.

17 Interest in associates

The following list contains the particulars of associates, all of which are unlisted corporate entities whose market price is not available:

Name of associate		Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital and securities	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principle activity
Jiangsu Tianrun Huafa Logistics Company Limited ("Tianrun Huafa")	(i)	Incorporated	The PRC	5,000,000 shares of RMB1 each	40%	–	40%	Logistics and freight
Xinzhenggong Company Limited ("XZG")	(ii)	Incorporated	Taiwan	200,000,000 shares of TWD1 each	25%	–	25%	Sale of special steel related products
SB Specialty Metals Holdings LLC ("SBSMH")	(iii)	Incorporated	United States of America	8,625,000 shares of USD1 each	19.8%	19.8%	–	Sale of special steel related products

note:

(i) Tianrun Huafa is one of the transportation agencies of the Group in the PRC.

(ii) XZG is the sole distributor of TG Tools' products in Taiwan.

(iii) SBSMH, a distributor of special steel products in the USA, enables the Group to have exposure to this market through local experience.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

17 Interest in associates (continued)

Aggregate information of associates that are not individually material:

	2015 RMB'000	2014 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**38,503**	33,997
Aggregate amounts of the Group's share of those associates'		
— Profit/(loss) from continuing operations	**5,857**	(2,702)
— Other comprehensive income	**(1,351)**	(436)
Total comprehensive income/ (loss)	**4,506**	(3,138)

18 Interest in joint ventures

Details of the Group's interest in the joint ventures as at 31 December 2015, which is accounted for using the equity method in the consolidated financial statements, are set out below:

Name of Joint ventures		Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital and securities	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principle activity
TGT Special Steel Company Limited ("TGT")	(i)	Incorporated	The Republic of Korea	1,000,000 shares of USD1 each	70%	—	70%	Sale of special steel related products
TGK Special Steel PVT Limited ("TGK")	(ii)	Incorporated	India	2,000,000 shares of USD1 each	50%	—	50%	Sale of special steel related products
Tiangong South East Asia PTE. Ltd. ("TGS")	(iii)	Incorporated	Singapore	150,000 shares of USD1 each	50%	—	50%	Sale of special steel related products
Czechtools and Materials S.R.O. ("CTM")	(iv)	Incorporated	Czech Republic	200,000 shares of CZK 1 each	50%	—	50%	Sale of special steel related products
Five Star Special Steel Europe S.R.L ("FSS")	(v)	Incorporated	Italy	100,000 shares of EUR1 each	60%	—	60%	Sale of special steel related products
TG Middle East Celik San Ltd. ("TME")	(vi)	Incorporated	Turkey	1,000,000 shares of EUR1 each	50%	—	50%	Sale of special steel related products

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18 Interest in joint ventures (continued)

note:

(i) TGT is the sole distributor of the Group's special steel products in Korea.

According to the TGT's Articles of Association, no single shareholder is in a position to control the shareholders' meeting and no single director appointed by either shareholder is in a position to control the Board. Therefore, although the Group holds 70% of equity interests in TGT, management of the Group consider that the Group does not have the ability to use its power over TGT to affect its returns through its involvement and deemed TGT to be a joint venture of the Group rather than a subsidiary.

(ii) TGK is the sole distributor of the Group's special steel products in India.

(iii) TGS is the sole distributor of the Group's special steel products in Singapore.

(iv) CTM is the sole distributor of the Group's special steel products in the Czech Republic.

(v) FSS is the sole distributor of the Group's special steel products in Italy.

According to the FSS's joint venture agreement, no single shareholder is in a position to control the shareholders' meeting and no single director appointed by either shareholder is in a position to control the Board. Therefore, although the Group holds 60% of equity interests in FSS, management of the Group consider that the Group does not have the ability to use its power over FSS to affect its returns through its involvement and deemed FSS to be a joint venture of the Group rather than a subsidiary.

(vi) TME is the sole distributor of the Group's special steel products in Turkey.

On 29 July 2015, TG Tools formed a joint venture, namely TME, with Birlesik Metal & Special Alloys in Turkey. The joint venture is principally engaged in sales of special steel related products. As at 31 December 2015, both parties have fully paid up the registered capital.

Aggregate information of joint ventures that are not individually material:

	2015	2014
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**24,509**	12,998
Aggregate amounts of the Group's share of those joint ventures'		
— Profit from continuing operations	**6,820**	6,391
— Other comprehensive income	**(623)**	108
Total comprehensive income	**6,197**	6,499

19 Other financial assets

	2015	2014
	RMB'000	RMB'000
Available-for-sale equity securities — Unlisted	**10,000**	10,000

The available-for-sale equity securities are stated at cost less impairment loss as there is no quoted market price in an active market for the investments.

The Group's exposure to credit risk related to other financial assets is disclosed in note 31(a).

20 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2015 RMB'000	2014 RMB'000
Raw materials	**23,151**	76,506
Work in progress	**890,092**	966,582
Finished goods	**973,400**	909,693
	1,886,643	1,952,781

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2015 RMB'000	2014 RMB'000
Carrying amount of inventories sold	**3,034,587**	3,622,807
Provision for write-down of inventories	**3,474**	4,031
	3,038,061	3,626,838

21 Trade and other receivables

	2015 RMB'000	2014 RMB'000
Trade receivables	**1,217,005**	1,564,099
Bills receivable	**529,771**	488,441
Less: provision for doubtful debts (note 21(b))	**(76,618)**	(66,420)
Net trade and bills receivables	**1,670,158**	1,986,120
Prepayments	**186,298**	90,450
Current taxation (note 29)	**3,192**	—
Non-trade receivables	**41,969**	44,405
Less: provision for doubtful non-trade receivables	**(6,137)**	(6,449)
Net prepayments and non-trade receivables	**225,322**	128,406
	1,895,480	2,114,526

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21 Trade and other receivables (continued)

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

Trade receivables of RMB91,509,077 (2014: RMB285,273,000) have been pledged to a bank as security for the Group to issue bank loans as disclosed in note 25.

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in note 31(a).

(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 provision for doubtful debts, is as follows:

	2015	2014
	RMB'000	RMB'000
Within 3 months	**1,246,347**	1,532,947
4 to 6 months	**279,986**	321,869
7 to 12 months	**76,963**	94,236
1 to 2 years	**54,985**	24,742
Over 2 years	**11,877**	12,326
	1,670,158	1,986,120

Trade and bills receivables are due from 90 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 31(a).

(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 (see note 3(g)(i)).

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

	2015	2014
	RMB'000	RMB'000
At 1 January	**66,420**	26,972
Provision for doubtful debts	**10,198**	39,448
At 31 December	**76,618**	66,420

21 Trade and other receivables (continued)

(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:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	**1,204,931**	1,427,285
Less than 3 months past due	**13,961**	11,374
3 to 6 months past due	**2,556**	997
Over 6 months past due	**13,772**	5,546
Amounts past due but not impaired	**30,289**	17,917
	1,235,220	1,445,202

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.

22 Pledged deposits

As at 31 December 2015, bank deposits of RMB445,389,000 (2014: RMB404,400,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities (as described in notes 25). The pledge in respect of the bank deposits will be released upon the settlement of the related bills by the Group and the termination of related banking facilities.

The Group's exposure to credit and interest rate risks are disclosed in note 31.

23 Time deposits

As at 31 December 2015, time deposits of RMB400,000,000 (2014: RMB543,100,000) on the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

The Group's exposure to credit and interest rate risks are disclosed in note 31.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

24 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

As at 31 December 2014 and 2015, all of the Group's cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement represented cash at bank and cash on hand.

	2015	2014
	RMB'000	RMB'000
Cash at bank and on hand	**323,486**	181,373

(b) Reconciliation of profit before taxation to cash generated from operations:

		2015	2014
	note	**RMB'000**	RMB'000
Profit before taxation		**85,205**	544,168
Adjustments for:			
Depreciation	8(c)	**190,416**	173,770
Amortisation of lease prepayments	8(c)	**1,655**	1,622
Interest income	8(a)	**(8,521)**	(9,337)
Interest on bank loans	8(a)	**149,240**	151,236
Loss on disposal of property, plant and equipment	7	**2,541**	8,265
Dividends received from unlisted securities	6	**(800)**	(800)
Impairment loss on trade and non-trade receivables	8(c)	**9,886**	40,284
Share of (profits)/losses of associates	17	**(5,857)**	2,702
Share of profits of joint ventures	18	**(6,820)**	(6,391)
Equity-settled share-based payment expenses	8(b)	**—**	14,173
Operating profit before changes in working capital		**416,945**	919,692
Change in inventories		**62,429**	25,761
Change in trade and other receivables		**166,662**	(504,590)
Change in trade and other payables		**33,159**	194,765
Change in deferred income		**31,625**	12,839
Net cash generated from operations		**710,820**	648,467

25 Interest-bearing borrowings

	note	2015 RMB'000	2014 RMB'000
Current			
Secured bank loans	(i)	**206,287**	429,059
Unsecured bank loans	(ii)	**2,117,856**	1,208,342
Current portion of non-current unsecured bank loans	(iii)	**256,753**	552,527
Current portion of non-current secured bank loans	(i)	**—**	152,975
		2,580,896	2,342,903
Non-current			
Secured bank loans	(i)	**—**	152,975
Unsecured bank loans	(iii)	**742,731**	1,185,676
Less: Current portion of non-current unsecured bank loans	(iii)	**(256,753)**	(552,527)
Current portion of non-current secured bank loans	(i)	**—**	(152,975)
		485,978	633,149
		3,066,874	2,976,052

(i) The secured bank loans were pledged against certain trade receivables, sales contracts and deposits at interest rates ranging from 0.70% to 3.75% per annum (2014: 1.55% to 6.72%).

(ii) Current unsecured bank loans carried interest at annual rates ranging from 1.20% to 6.16% (2014: 1.84% to 6.60%), and were all repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 6.00% (2014: 3.33% to 6.15%).

The current portion and non-current portion of the Group's non-current bank loans were repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**256,753**	705,502
Over 1 year but less than 2 years	**485,978**	187,535
Over 2 years but less than 3 years	**—**	445,614
	742,731	1,338,651

As at 31 December, the Group's banking facility with one bank is subject to the fulfilment of covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. Further details of the Group's management of liquidity risk are set out in note 31(b). As at 31 December 2015, none of the covenants relating to drawn down facilities had been breached (2014: None).

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(Expressed in Renminbi unless otherwise indicated)

25 Interest-bearing borrowings (continued)

More information about the Group's exposure to interest rate, foreign currency and liquidity risks is disclosed in note 31.

26 Trade and other payables

	2015 RMB'000	2014 RMB'000
Trade and bills payable	**1,191,611**	1,185,234
Non-trade payables and accrued expenses	**155,724**	155,676
	1,347,335	1,340,910

The Group's exposure to liquidity and currency risks related to trade and other payables is disclosed in note 31.

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:

	2015 RMB'000	2014 RMB'000
Within 3 months	**711,435**	848,182
4 to 6 months	**376,429**	263,943
7 to 12 months	**31,251**	41,181
1 to 2 years	**56,614**	16,986
Over 2 years	**15,882**	14,942
	1,191,611	1,185,234

27 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. At the end of 2009, the construction projects related to the conditional government grants had been completed and the deferred income of RMB9,900,000 had started to be amortised in line with the useful lives of the related fixed assets. During 2015, the Group received conditional government grants of RMB32,787,000 (2014: RMB14,000,000) to support the capital investments of the Group. As at 31 December 2015, the carrying amount of the deferred income in respect of government grants after amortisation (note 6(i)) amounted to RMB49,330,000 (2014: RMB17,705,000) of which RMB48,168,000 (2014: RMB16,543,000) was classified as non-current deferred income.

(Expressed in Renminbi unless otherwise indicated)

28 Equity settled share-based transactions

The Group has a share option scheme which was adopted on 7 July 2007 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
— on 28 January 2011	1,520,000	0.26 years from the date of grant and only be vested if and when the pre-set performance target of the Company is achieved	4.42 years and expired at the close business on 30 June 2016
— on 18 August 2014	1,967,000	Immediately on 19 August 2014	5 years and expire at the close business on 18 August 2019
Options granted to employees:			
— on 28 January 2011	18,360,000	0.26 years from the date of grant and only be vested if and when the pre-set performance target of the Company is achieved	4.42 years and expired at the close business on 30 June 2016
— on 17 January 2014	9,057,000	Immediately on 1 June 2014	2.37 years and expire at close business on 31 May 2016
— on 18 August 2014	20,180,000	Immediately on 19 August 2014	5 years and expire at close business on 18 August 2019
Total share options granted	51,084,000		

(b) The number and weighted average exercise prices of share options are as follows:

		2015		2014	
	note	**Weighted average exercise price**	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year		HKD1.925	34,284,000	HKD1.275	9,120,000
Granted during the year	30(c)(ii)	—	—	HKD2.500	9,057,000
	30(c)(ii)			HKD1.780	22,147,000
Exercised during the year	30(c)(ii)	—	—	HKD1.275	(6,040,000)
Outstanding at the end of the year		HKD1.925	34,284,000	HKD1.925	34,284,000
Exercisable at the end of the year		HKD1.925	34,284,000	HKD1.925	34,284,000

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(Expressed in Renminbi unless otherwise indicated)

28 Equity settled share-based transactions (continued)

(b) The number and weighted average exercise prices of share options are as follows: (continued)

There was no share option exercised for the year ended 31 December 2015. The weighted average share price for share options exercised during 2014 was HKD1.275.

The options outstanding and exercisable as at 31 December 2015 had an exercise price of HKD1.275 (2014: HKD1.275), HKD2.500 (2014: HKD2.500) and HKD1.780 (2014: HKD1.780) respectively and a weighted average remaining contractual life of 2.56 years (2014: 3.56 years).

(c) Fair values of share options and assumptions:

The fair values of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Granted on 28 January 2011	Granted on 17 January 2014	Granted on 18 August 2014
Fair value at grant date	HKD2.4700 per share option	HKD0.5323 per share option	HKD0.5914 per share option
Share price	HKD1.28 per share	HKD2.48 per share	HKD1.78 per share
Exercise price	HKD1.28 per share	HKD2.50 per share	HKD1.78 per share
Expected volatility	62.10%	43.53%	48.17%
Option life	5.4 years	2.37 years	5 years
Expected dividend yield	1.20%	3.46%	3.04%
Risk-free interest rate (based on Hong Kong Government Bond)	1.88%	0.45%	1.22%

The expected volatility is based on the historical volatility of the Company over the contractual life of the options as at the date of valuation. Expected dividend yield is based on historical dividend yield. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions have not been taken into account in the grant-date fair value measurement of the services received. There were no market conditions associated with the share option grants.

29 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2015 RMB'000	2014 RMB'000
At the beginning of the year	**60,240**	72,340
Provision for PRC income tax for the year	**12,956**	67,878
Provision for Hong Kong Profits Tax for the year	**1,900**	2,293
PRC income tax paid	**(78,288)**	(82,271)
At the end of the year	**(3,192)**	60,240

(b) Deferred tax assets recognised

The components of the deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Deductible tax losses RMB'000	Unrealised profits RMB'000	Provision for doubtful debts RMB'000	Write-down of inventories RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	2,741	9,122	4,098	1,596	3,383	20,940
(Charged)/ credited to profit or loss	(2,422)	(6,548)	6,465	285	(3,383)	(5,603)
At 31 December 2014	319	2,574	10,563	1,881	—	15,337
Credited /(charged) to profit or loss	3,395	(95)	931	521	—	4,752
At 31 December 2015	3,714	2,479	11,494	2,402	—	20,089

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(Expressed in Renminbi unless otherwise indicated)

29 Income tax in the consolidated statement of financial position (continued)

(c) Deferred tax liabilities recognised and not recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Undistributed profits of subsidiaries	Deductible capitalised borrowing costs	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2014	9,593	24,869	34,462
Charged to profit or loss	987	4,660	5,647
At 31 December 2014	10,580	29,529	40,109
Charged to profit or loss	—	4,037	4,037
At 31 December 2015	10,580	33,566	44,146

As at 31 December 2015, deferred tax liabilities of RMB10,580,000 (2014: RMB10,580,000) were recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries in the foreseeable future. Deferred tax liabilities of RMB136,379,000 (2014: RMB135,055,000) have not been recognised, as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that above undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future.

30 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	note	Share capital RMB'000 note30(c)(i)	Share premium RMB'000 note30(d)(i)	Capital redemption reserve RMB'000 note30(d)(i)	Capital reserve RMB'000 note30(d)(ii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2014		35,962	1,221,996	–	4,767	(57,099)	1,205,626
Changes in equity for 2014:							
Total comprehensive income for the year		–	–	–	–	(10,694)	(10,694)
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	(96,056)	(96,056)
Exercise of share options	30(c)(ii)	93	9,117	–	(3,157)	–	6,053
Issuance of share options	30(c)(ii)	–	–	14,173	–	–	14,173
Shares allotment	30(c)(iii)	4,604	393,323	–	–	–	397,927
Issuance of warrants	30(c)(iv)	–	–	–	1,586	–	1,586
Repurchase of own shares	30(c)(v)	(492)	(33,676)	492	–	–	(33,676)
Balance at 31 December 2014 and 1 January 2015		40,167	1,590,760	14,665	3,196	(163,849)	1,484,939
Total comprehensive income for the year		–	–	–	–	1,426	1,426
Dividends approved in respect of the previous year	30(c)(ii)	–	–	–	–	(96,402)	(96,402)
Balance at 31 December 2015		40,167	1,590,760	14,665	3,196	(258,825)	1,389,963

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 Capital, reserves and dividends (continued)

(b) Dividends

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

	2015 **RMB'000**	2014 RMB'000
Dividend proposed after the end of the reporting period of RMB0.0065 per ordinary share (2014: RMB0.0418 per ordinary share)	**14,525**	92,693

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 the previous financial year, approved and paid during the year:

	2015 **RMB'000**	2014 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0418 per ordinary share (2014: RMB0.0494 per ordinary share)	**96,402**	96,056

In respect of the final dividend for the year ended 31 December 2014, there is a difference of RMB3,709,000 (2013: RMB117,000) between the final dividend disclosed in the 2014 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 average exchange rate on the date of 2014 annual result announcement and the actual exchange rate applied on the date of payment.

(c) Share capital

(i) Issued and fully paid share capital

Authorised:

	2015 and 2014	
	No. of Shares ('000)	**Amount USD '000**
Ordinary shares of USD0.0025 each (2014: USD0.0025)	4,000,000	10,000

30 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(i) Issued and fully paid share capital (continued)

Ordinary shares issued and fully paid:

	2015			2014		
	No. of Shares ('000)	**Amount USD '000**	**RMB equivalent '000**	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	**2,220,080**	**5,550**	**40,167**	1,941,160	4,853	35,962
Shares allotment	—	—	—	300,000	750	4,604
Exercise of share options	—	—	—	6,040	15	93
Repurchase of own shares	—	—	—	(27,120)	(68)	(492)
At 31 December	**2,220,080**	**5,550**	**40,167**	2,220,080	5,550	40,167

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme and share options issued

On 17 January 2014, the Company granted an aggregate of 9,057,000 share options to employees of the Company to subscribe for ordinary shares of USD0.0025 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 1 June 2014 to 31 May 2016 at an exercise price of HKD2.50 per share, which was equal to the market price of the ordinary shares on the date of grant. The amount payable on acceptance per grant is HKD1.00. Each share option was valued at approximately HKD0.5323 by an external appraiser. During the year ended 31 December 2015 and 2014, no share options were exercised.

On 18 August 2014, the Company granted an aggregate of 22,147,000 share options to employees of the Company to subscribe for ordinary shares of USD0.0025 each in the capital of the Company under its share option scheme adopted on 7 July 2007. The holders of the share options shall have the right to subscribe for ordinary shares during the period from 19 August 2014 to 18 August 2019 at an exercise price of HKD1.78 per share, which was equal to the market price of the ordinary shares on the date of grant. The amount payable on acceptance per grant is HKD1.00. Each share option was valued at approximately HKD0.5914 by an external appraiser. During the year ended 31 December 2015 and 2014, no share options were exercised.

During the year ended 31 December 2014, options issued in 2011 were exercised to subscribe for 6,040,000 ordinary shares in the Company at a consideration of RMB6,053,000 of which RMB93,000 was credited to share capital and the balance of RMB5,960,000 was credited to the share premium account. RMB3,157,000 has been transferred from the capital reserve to the share premium account.

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(Expressed in Renminbi unless otherwise indicated)

30 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(iii) Share allotment

On 9 October 2014, an aggregate of 300,000,000 new ordinary shares of HKD1.75 each were allotted to certain professional, institutional or corporate investors pursuant to a subscription agreement. Total proceeds of RMB415,007,000, net of direct share issuance expenses of RMB17,080,000, were raised, of which RMB4,604,000 was credited to share capital and the balance of RMB393,323,000 was credited to the share premium account.

(iv) Issuance of warrants

On 7 February 2014, an aggregate of 40,000,000 warrants were issued to six parties in accordance with the terms of a warrant placing agreement entered by the Company and a placing agent at a placing price of HKD0.02 per warrant. The holders of the warrants shall have the right to subscribe for 40,000,000 of the Company's ordinary shares at an initial exercise price of RMB2.07 per ordinary share (equivalent to approximately HKD2.65 at a fixed exchange rate of HKD1.2807) per share (subject to adjustment pursuant to the terms of the warrants) within 3 years from the date of issue. The consideration received of RMB629,000 net of direct expenses of RMB42,000 was credited to capital reserve.

On 14 July 2014, an aggregate of 70,000,000 warrants were issued to a subscriber in accordance with the terms of a warrant placing agreement entered by the Company and the subscriber at a placing price of HKD0.02 per warrant. The holders of the warrants shall have the right to subscribe for 70,000,000 of the Company's ordinary shares at an initial exercise price of RMB1.36 per ordinary share (equivalent to approximately HKD1.70 at a fixed exchange rate of HKD1.2509) per share (subject to adjustment pursuant to the terms of the warrants) within 1 year from the date of issue. The consideration received of RMB1,111,000 net of direct expenses of RMB112,000 was credited to capital reserve. The aggregate of 70,000,000 warrants issued under this agreement was lapsed on 13 July 2015.

During the year ended 31 December 2015 and 2014, no warrants were exercised.

There are 40,000,000 warrants outstanding and exercisable as at 31 December 2015 (2014: 110,000,000) which had an exercise price of HKD2.65 (2014: HKD2.65 and HKD1.70), and a weighted average remaining contractual life of 1.16 years (2014: 1.28 years).

30 Capital, reserves and dividends (continued)

(c) Share capital (continued)

(v) *Repurchase of own shares*

During the year ended 31 December 2015, no shares were repurchased by the Company.

During the year ended 31 December 2014, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate price paid
		HKD	HKD	HKD'000
November 2014	12,756,000	1.66	1.60	16,593
December 2014	14,364,000	1.59	1.38	25,295
				41,888

The Company repurchased aggregated 27,120,000 ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited at a consideration of HKD41,888,000. All the repurchased shares were cancelled during the year and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37 of the Cayman Islands Companies Law, an amount equivalent to the par value of the shares cancelled of RMB492,000 was transferred from share premium to the capital redemption reserve, and the balance of RMB33,676,000 reduced the share premium.

(d) Nature and purpose of reserves

(i) *Share premium and capital redemption reserve*

The share premium represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares or the consideration paid for the shares repurchased of the Company. Under the Companies Law of the Cayman Islands, share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to repay its debts as they fall due in the ordinary course of business.

Capital redemption reserve represents the par value of shares repurchased by the Company pursuant to the section 37 of the Cayman Island Companies Law.

(ii) *Capital reserve*

The capital reserve comprises the following:

— the waived payables due to TG Group in connection with the acquisition of land use rights and plant in 2007. These waivers of liabilities by TG Group were regarded as equity transactions and recorded in the capital reserve account, and

— the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(m)(ii).

— the consideration received from issuance of warrants in accordance with the terms of warrant placing agreement entered by the Company and the subscriber net of direct expenses.

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(Expressed in Renminbi unless otherwise indicated)

30 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iii) Merger reserve

The merger reserve comprises the excess amount, arising from the Group's reorganisation of Group entities under common control in 2006 and 2007, of its share of the net identifiable assets acquired in these subsidiaries over the consideration paid. The reorganisation transactions were regarded as equity transactions and the excess of the share of the net identifiable assets over the consideration paid was transferred to the merger reserve in the consolidated financial statements.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign equity-accounted investees. The reserve is dealt with in accordance with the accounting policies set out in notes 3(b) and 3(q).

(v) PRC statutory reserves

Transfers from retained earnings to the following PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

General reserve fund

The subsidiaries in the PRC are required to transfer at least 10% of their profit after taxation, as determined under the PRC accounting regulations, to the general reserve fund until the reserve balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The general reserve fund can be used to make good losses or be converted into share capital by the issuance of new shares to shareholders in proportion to their existing equity holdings, provided that the balance after such conversion is not less than 25% of their registered capital.

Enterprise expansion fund

The enterprise expansion fund can be used to convert into share capital and to develop business.

(e) Distributability of reserves

As at 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,331,935,000 (2014: RMB1,426,911,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.0065 per ordinary share (2014: RMB0.0418), amounting to RMB14,525,000 (2014: RMB92,693,000). This dividend has not been recognised as a liability at the end of the reporting period.

30 Capital, reserves and dividends (continued)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2015, the Group's strategy was to maintain a stable adjusted net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The group's adjusted net debt-to-capital ratio at 31 December 2015 and 2014 was as follows:

	Note	**2015** **RMB'000**	2014 RMB'000
Current liabilities:			
Interest-bearing borrowings	25	**2,580,896**	2,342,903
Non-current liabilities:			
Interest-bearing borrowings	25	**485,978**	633,149
Total debt		**3,066,874**	2,976,052
Add: Proposed dividends	30(b)	**14,525**	92,693
Less: Cash and cash equivalents	24	**(323,486)**	(181,373)
Adjusted net debt		**2,757,913**	2,887,372
Total equity		**3,876,287**	3,929,821
Less: Proposed dividends	30(b)	**(14,525)**	(92,693)
Adjusted capital		**3,861,762**	3,837,128
Adjusted net debt-to-capital ratio		**71%**	75%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

31 Financial risk management and fair values

Exposure to credit, liquidity, currency and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

(i) Trade and other receivables

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 credit terms of 90 to 180 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2015, 0% (2014: 0%) and 13% (2014: 13%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

Except for the financial guarantees given by the Group as set out in note 33(b)(i), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 33(b)(i).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(ii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and/or only with counterparties that have a credit rating equal to or better than the Group. Management does not expect any counterparty to fail to meet its obligations.

(iii) Deposits with banks

Substantially all of the bank deposits are deposited with Chinese state-owned banks and local commercial banks. The management does not expect any losses arising from non-performance of these financial institutions.

31 Financial risk management and fair values (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, as at 31 December 2015, total banking and borrowing facilities available to the Group amounted to RMB5,749,233,000 (2014: RMB6,328,329,000) of which RMB3,595,017,000 (2014: RMB2,933,074,000) had been utilised.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

		2015 Contractual undiscounted cash outflow				
	note	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 3 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Interest-bearing borrowings	25	**2,627,408**	**491,234**	**—**	**3,118,642**	**3,066,874**
Trade and other payables	26	**1,347,335**	**—**	**—**	**1,347,335**	**1,347,335**
		3,974,743	**491,234**	**—**	**4,465,977**	**4,414,209**

		2014 Contractual undiscounted cash outflow				
	note	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Interest-bearing borrowings	25	2,409,858	203,654	464,240	3,077,752	2,976,052
Trade and other payables	26	1,345,805	—	—	1,345,805	1,345,805
		3,755,663	203,654	464,240	4,423,557	4,321,857

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 Financial risk management and fair values (continued)

(c) Currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars (USD), Euros (EUR) and Hong Kong Dollars (HKD).

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency are excluded.

	2015 Exposure to foreign currencies (expressed in RMB)			2014 Exposure to foreign currencies (expressed in RMB)		
	USD	**EUR**	**HKD**	USD	EUR	HKD
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Trade and other receivables	**94,724**	**88,615**	**—**	86,496	103,047	—
Cash and cash equivalents	**7,635**	**3,533**	**9,602**	50,147	8,872	12,934
Trade and other payables	**12,980**	**21,611**	**—**	34,779	711	—
Interest-bearing borrowings	**(405,201)**	**(133,188)**	**—**	(771,977)	(91,033)	—
Net exposure arising from recognised assets and liabilities	**(289,862)**	**(19,429)**	**9,602**	(600,555)	21,597	12,934

31 Financial risk management and fair values (continued)

(c) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on profit after tax and retained profits RMB'000
USD	**5%**	**(12,408)**	5%	(25,662)
	(5%)	**12,408**	(5%)	25,662
EUR	**10%**	**(1,757)**	10%	1,709
	(10%)	**1,757**	(10%)	(1,709)
HKD	**5%**	**425**	5%	618
	(5%)	**(425)**	(5%)	(618)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency. The analysis is performed on the same basis as for 2014.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 Financial risk management and fair values (continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings, pledged deposits and time deposits.

Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for the Group to issue bank acceptance bills and other banking facilities.

Interest-bearing borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in note 25.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the end of the reporting period:

	2015		2014	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.70%–6.16%**	**(1,328,637)**	1.55%–6.72%	(1,183,611)
Pledged deposits	**1.15%–3.30%**	**445,389**	0.35%–3.30%	404,400
Time deposits	**1.55%–2.17%**	**400,000**	2.80%–3.05%	543,100
		(483,248)		(236,111)
Variable rate instruments				
Interest-bearing borrowings	**1.2%–6.00%**	**(1,738,237)**	2.33%–6.15%	(1,792,441)

(ii) Sensitivity analysis

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB13,279,880 (2014: RMB15,382,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2014.

31 Financial risk management and fair values (continued)

(e) Fair values measurement

Available-for-sale financial assets are stated at cost less impairment losses as there is no quoted market price in an active market for these assets. Further disclosures in respect of these assets are set out in note 19.

Except for available-for-sale financial assets, all financial instruments measured at other than fair value are carried at cost or amortised cost that are not materially different from their fair values as at 31 December 2015 and 2014 due to either the short maturities of these financial instruments or variable market interest rates for long-term bank borrowings.

32 Commitments

(a) Capital commitments outstanding as at 31 December 2015 not provided for in the consolidated financial statements were as follows:

	2015	2014
	RMB'000	RMB'000
Contracted for	**45,449**	31,893
Authorised but not contracted for	**422,496**	110,534
	467,945	142,427

(b) As at 31 December 2015, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2015	2014
	RMB'000	RMB'000
Within 1 year	**2,198**	1,211
After 1 year but within 5 years	**—**	1,000
	2,198	2,211

The Group leases certain properties located in the PRC and Hong Kong as the Group's offices under operating leases. The leases run for initial periods of 1-3 years.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

33 Material related party transactions

(a) Key management personnel remuneration

Key management personnel remuneration represents amounts paid to the Company's directors as disclosed in note 10 and the highest paid employees as disclosed in note 11.

(b) Transactions with related companies

The Group has transactions with a company controlled by the controlling shareholder ("controlling shareholder's company"), immediate parent, associates and joint ventures. The following is a summary of principal related party transactions carried out by the Group with these related parties for the years presented.

(i) Significant related party transactions

	2015	2014
	RMB'000	RMB'000
Sale of goods to:		
Joint ventures	**249,802**	133,615
Associates	**26,845**	37,482
	276,647	171,097
Freight expense to:		
Associates	**11,984**	18,627
Lease expense to:		
Controlling shareholder's company	**1,000**	1,000
Lease income from:		
Associates	**50**	50
Financial guarantee issued to:		
Joint ventures	**—**	25,737

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

33 Material related party transactions (continued)

(b) Transactions with related companies (continued)

(ii) Significant related party balances

	2015 **RMB'000**	2014 RMB'000
Trade and other receivables due from		
Joint ventures	**151,775**	121,507
Associates	**8,012**	6,263
	159,787	127,770
Trade and other payables due to		
Associates	**5,033**	5,376
Controlling shareholder's company	**500**	1,200
	5,533	6,576

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of lease expense paid to the controlling shareholder's company mentioned in note 33(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules. Apart from these transactions, none of the other related party transactions mentioned in note 33 falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

34 Company-level statement of financial position

	note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment		**11**	11
Investments in subsidiaries		**1,472,994**	1,515,730
Interest in associates		**24,121**	22,177
		1,497,126	1,537,918
Current assets			
Cash and cash equivalents		**8,034**	31,727
		8,034	31,727
Current liabilities			
Interest-bearing borrowings		**83,612**	27,527
Trade and other payables		**2,108**	2,108
		85,720	29,635
Net current (liabilities)/assets		**(77,686)**	2,092
Total assets less current liabilities		**1,419,440**	1,540,010
Non-current liabilities			
Interest-bearing borrowings		**29,477**	55,071
		29,477	55,071
Net assets		**1,389,963**	1,484,939
Capital and reserves			
Share capital	30(a)/(c)	**40,167**	40,167
Reserves	30(a)	**1,349,796**	1,444,772
Total equity		**1,389,963**	1,484,939

Approved and authorised for issue by the Board on 30 March 2016.

Zhu Xiao Kun *Director*

Yan Rong Hua *Director*

35 Accounting estimates and judgements

Note 15, 28(c) and 31(e) contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are as follows:

(a) Impairment losses on trade and other receivables

As explained in note 31(a), impairment losses for trade and other receivables are assessed and provided based on the directors' regular review of the ageing analysis and past collection history of each individual customer. A considerable level of judgement is exercised by the directors when assessing the creditworthiness and collectability of each receivable. Any increase or decrease in the provision for bad and doubtful debts would affect the consolidated statement of profit or loss in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of a similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market condition. Management reassess the estimations at each end of the reporting period.

(d) Income taxes

Determining income tax provisions involves judgement regarding the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

36 Immediate and ultimate controlling party

At 31 December 2015, the directors consider the immediate parent and ultimate controlling party of the Group to be Tiangong Holdings Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

37 Non-adjusting events after the reporting period

On 7 March 2016, TG Tech entered into a subscription agreement with Nanjing Iron & Steel Co., Ltd. for a subscription, subject to certain conditions and adjustments (if applicable), 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 "Placing"). Upon the completion of the Placing, the equity interests held by the Company in TG Tech will be diluted by approximately 11.76% from 100% to approximately 88.24% of the enlarged share capital of TG Tech. TG Tech will remain as a subsidiary of the Group after the completion of the Placing. As of the date of this report, the Placing has not been completed yet.

On 25 January 2016, CTCL(HK) established a wholly owned subsidiary, Danyang Tianjia Tools Technology Company Limited ("Tianjia Tools"), which is engaged in the research and development, distribution and sale of cutting tools related products. Up to the date of this report, CTCL(HK) had not contributed any capitals into Tianjia Tools.

On 5 February 2016, Tianjia Tools established a wholly owned subsidiary, Danyang Taifeng Precision Machinery Tools Company Limited ("Taifeng Tools"), which is engaged in the research and development, manufacturing and sale of cutting tools related products. Up to the date of this report, Tianjia Tools had not contributed any capitals into Taifeng Tools.

After 31 December 2015, the directors proposed a final dividend of RMB0.0065 per ordinary share on 30 March 2016. Further details are disclosed in note 30(b).

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016
IFRS 14, Regulatory deferral accounts	1 January 2016
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to IAS 27, *Equity method in separate financial statements*	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment entities: Applying the consolidation exception*	1 January 2016
Amendments to IAS 7, *Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes — Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2017

The following financial information is extracted from the interim report of the Company for the six months ended 30 June 2017.

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 (unaudited)

	Note	Six months ended 30 June 2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Revenue	3	**1,877,005**	1,568,234
Cost of sales		**(1,662,936)**	(1,381,307)
Gross profit		**214,069**	186,927
Other income	4	**6,308**	7,325
Distribution expenses		**(42,255)**	(28,829)
Administrative expenses		**(63,429)**	(67,363)
Other expenses	5	**(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	6(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	6	**46,102**	33,236
Income tax	7	**(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)	8		
Basic		**0.018**	0.012
Diluted		**0.018**	0.012

The notes on pages 25 to 40 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17.

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

The notes on pages 25 to 40 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2017 (unaudited)

	Note	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
Non-current assets			
Property, plant and equipment	9	**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	10	**92,900**	96,300
Deferred tax assets		**34,065**	30,146
		3,707,303	3,737,020
Current assets			
Trading securities		**2,145**	–
Inventories	11	**1,999,433**	1,901,775
Trade and other receivables	12	**1,834,798**	1,577,383
Pledged deposits	13	**201,381**	180,180
Time deposits		**449,506**	640,000
Cash and cash equivalents	14	**294,745**	259,546
		4,782,008	4,558,884
Current liabilities			
Interest-bearing borrowings	15	**2,573,364**	2,678,912
Trade and other payables	16	**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	15	**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

The notes on pages 25 to 40 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2017 (unaudited)

	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

Approved and authorised for issue by the board of directors on 15 August 2017.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on pages 25 to 40 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 (unaudited)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		40,167	1,590,760	492	74,367	91,925	(34,259)	–	530,335	1,582,500	–	3,876,287
Changes in equity for the six months ended 30 June 2016												
Profit for the period		–	–	–	–	–	–	–	–	25,713	1,151	26,864
Other comprehensive income		–	–	–	–	–	72	–	–	–	–	72
Total comprehensive income		–	–	–	–	–	72	–	–	25,713	1,151	26,936
Dividends approved in respect of the previous year	17	–	–	–	–	–	–	–	–	(14,431)	–	(14,431)
Partial disposal to non-controlling interests		–	–	–	–	–	–	–	–	–	49,320	49,320
Forfeiture of share options		–	–	–	(3,772)	–	–	–	–	3,772	–	–
Balance at 30 June 2016 and 1 July 2016		40,167	1,590,760	492	70,595	91,925	(34,187)	–	530,335	1,597,554	50,471	3,938,112
Changes in equity for the six months ended 31 December 2016												
Profit for the period		–	–	–	–	–	–	–	–	84,858	4,274	89,132
Other comprehensive income		–	–	–	–	–	(27,714)	73,355	–	–	–	45,641
Total comprehensive income		–	–	–	–	–	(27,714)	73,355	–	84,858	4,274	134,773
Dividends approved in respect of the previous year		–	–	–	–	–	–	–	–	(481)	–	(481)
Transfer to reserve		–	–	–	–	–	–	–	14,203	(14,203)	–	–
Issuance of share options		–	–	–	2,253	–	–	–	–	–	–	2,253
Partial disposal to non-controlling interests		–	–	–	–	–	–	–	–	(2,197)	82,974	80,777
Balance at 31 December 2016		40,167	1,590,760	492	72,848	91,925	(61,901)	73,355	544,538	1,665,531	137,719	4,155,434

The notes on pages 25 to 40 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 (unaudited)

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company										
Balance at 1 January 2017		40,167	1,590,760	492	72,848	91,925	(61,901)	73,355	544,538	1,665,531	137,719	4,155,434
Changes in equity for the six months ended 30 June 2017												
Profit for the period		-	-	-	-	-	-	-	-	39,290	1,615	40,905
Other comprehensive income		-	-	-	-	-	8,860	(2,890)	-	-	-	5,970
Total comprehensive income		-	-	-	-	-	8,860	(2,890)	-	39,290	1,615	46,875
Dividends approved in respect of the previous year	17	-	-	-	-	-	-	-	-	(22,200)	-	(22,200)
Balance at 30 June 2017		40,167	1,590,760	492	72,848	91,925	(53,041)	70,465	544,538	1,682,621	139,334	4,180,109

The notes on pages 25 to 40 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**(83,734)**	133,046
Tax paid	**(11,797)**	(21,248)
Net cash (used in)/generated from operating activities	**(95,531)**	111,798
Investing activities		
Payment for the purchase of property, plant and equipment	**(87,672)**	(132,048)
Other cash flows arising from/(used in) investing activities	**168,310**	(25,274)
Net cash generated from/(used in) investing activities	**80,638**	(157,322)
Financing activities		
Proceeds from new interest-bearing borrowings	**2,738,320**	2,164,574
Repayment of interest-bearing borrowings	**(2,636,980)**	(2,084,234)
Interest paid	**(52,384)**	(69,311)
Capital contribution from a non-controlling shareholder	**–**	49,600
Net cash generated from financing activities	**48,956**	60,629
Net increase in cash and cash equivalents	**34,063**	15,105
Cash and cash equivalents at 1 January	**259,546**	323,486
Effect of foreign exchange rates changes	**1,136**	(428)
Cash and cash equivalents at 30 June	**294,745**	338,163

The notes on pages 25 to 40 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1. 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 2.

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 on page 17.

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.

2. 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.

3. 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.

3. Revenue and segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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

3. Revenue and segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

	Six months ended 30 June 2016					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total 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

	Six months ended 30 June	
Revenue	**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

	Six months ended 30 June	
Profit	**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

3. Revenue and segment reporting (Continued)

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

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

3. Revenue and segment reporting (Continued)

(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.

4. 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.

5. Other expenses

	Six months ended 30 June 2017 RMB'000	2016 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

6. Profit before income tax

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

(a) Net finance costs

	Note	Six months ended 30 June 2017 RMB'000	2016 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	9	**(12,492)**	(6,468)
Finance expenses		**59,102**	59,807
Net finance costs		**56,438**	54,274

(b) Other items

	Note	Six months ended 30 June 2017 RMB'000	2016 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	11	**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.

7. 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 TG Tech 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.

8. 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.

9. Property, plant and equipment

During the six months ended 30 June 2017, the Group acquired items of plant and machinery at a cost of RMB75,008,000 (six months ended 30 June 2016: RMB113,649,000), excluding capitalised borrowing costs of RMB12,492,000 (six months ended 30 June 2016: RMB6,468,000). There were no material disposals of property, plants and equipment for the periods presented.

10. Other financial assets

	Note	**At 30 June 2017 RMB'000**	At 31 December 2016 RMB'000
Available-for-sale securities			
– listed in the PRC	(i)	**92,900**	96,300
– unlisted	(ii)	**–**	–
		92,900	96,300

(i) Fair value measurement of available-for-sale securities is disclosed in note 18. Available-for-sale securities of RMB92,900,000 (2016: RMB96,300,000) have been pledged to a bank as security for the Group to borrow bank loans as set out in note 15.

(ii) On 22 November 2016, TG Tools entered into an investment agreement with Citma Metals Co., Ltd. to incorporate a new corporation in Mexico, namely Aceros T&C. Aceros T&C is principally engaged in the sale of special steel related products. Equity interest held by TG Tools in Aceros T&C is 15%. Up to the date of this report, TG Tools has not contributed any capital into Aceros T&C.

11. Inventories

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	**46,836**	35,044
Work in progress	**1,031,467**	909,531
Finished goods	**921,130**	957,200
	1,999,433	1,901,775

During the six months ended 30 June 2017, the Group recognised a write-down of RMB9,436,000 (six months ended 30 June 2016: a write-down of RMB924,000) against those inventories with net realisable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Unaudited Interim Financial Report

12. 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 as disclosed in note 15.

12. Trade and other receivables (Continued)

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.

13. Pledged deposits

Bank deposits of RMB201,381,000 (2016: RMB180,180,000) have been pledged to banks as security for bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

14. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2017 are cash at bank and in hand.

15. Interest-bearing borrowings

	Note	**At 30 June 2017 RMB'000**	At 31 December 2016 RMB'000
Current			
Secured bank loans	(i)	**280,922**	263,288
Unsecured bank loans	(ii)	**1,541,016**	1,753,755
Current portion of non-current unsecured bank loans	(iii)	**751,426**	661,869
		2,573,364	2,678,912
Non-current			
Secured bank loans		**46,400**	60,000
Unsecured bank loans	(iii)	**1,121,914**	811,869
Less: Current portion of non-current unsecured bank loans	(iii)	**(751,426)**	(661,869)
		416,888	210,000
		2,990,252	2,888,912

(i) The current bank loans were secured by certain trade receivables, equity securities, and sales contracts at interest rates ranging from 0.60% to 4.30% per annum (2016: 0.70% to 3.60%) and were repayable within one year.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 1.50% to 5.22% (2016: 1.00% to 5.22%) and were repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 4.75% (2016: 2.34% to 5.75%).

15. Interest-bearing borrowings (Continued)

The current portion and non-current portion of the Group's non-current bank loans were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**751,426**	661,869
Over 1 year but within 2 years	**416,888**	210,000
	1,168,314	871,869

As at 30 June 2017, the Group's banking facility with one bank is subject to the fulfilment of a covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. As at 30 June 2017, none of the covenants relating to drawn down facilities had been breached (2016: None).

16. 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 RMB'000	At 31 December 2016 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

17. 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

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

18. Fair value measurement of financial instruments

(a) Financial assets measured at fair value

The following presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

Available-for-sale securities (listed) as mentioned in note 10 are measured at fair value determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs are observable, the instrument is included in Level 2 of the fair value hierarchy.

Trading securities traded in active markets are measured based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1 of the fair value hierarchy. Instruments mainly included in Level 1 comprise securities traded on exchanges.

(b) Financial assets and liabilities carried at other than fair value

Except for available-for-sale securities (listed) and trading securities mentioned in note 18(a), all financial instruments measured at other than fair value are carried at cost or amortised cost that are not materially different from their fair values as at 30 June 2017 and 2016 due to either the short maturities of these financial instruments or variable market interest rates for long-term bank borrowings.

19. Related party transactions

The Group has transactions with a company controlled by a controlling shareholder ("controlling shareholder's company"), a company controlled by a close member of a controlling shareholder's family ("controlling shareholder's family member's company"), associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the consolidated financial statements, the Group entered into the following related party transactions for the periods presented:

(a) Significant related party transactions-recurring

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Lease expenses to:		
Controlling shareholder's company	**500**	288
Sales of goods to:		
Joint ventures	**111,342**	149,718
Associates	**176,250**	21,066
Controlling shareholder's family member's company	**3,640**	–
Freight expenses to:		
Associates	**317**	1,100
Lending to:		
Joint ventures	**–**	2,670
Purchase of goods from:		
Controlling shareholder's family member's company	**1,444**	–

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

Notes to the Unaudited Interim Financial Report

19. Related party transactions (Continued)

(b) Amounts due from related parties

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Joint ventures	**199,280**	178,977
Associates	**62,262**	19,049
Controlling shareholder's family member's company	**764**	–
	262,306	198,026

(c) Amounts due to related parties

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Associates	**5,401**	11,015
Controlling shareholder's family member's company	**21**	–
	5,422	11,015

20. Commitments

(a) Capital commitments outstanding and not provided for in the interim financial report

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	**41,210**	56,921
Authorised but not contracted for	**142,241**	152,277
	183,451	209,198

(b) Operating leases commitments

At the date of the consolidated statement of financial position, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**1,036**	1,468
After 1 year but within 5 years	**1,503**	–
	2,539	1,468

5. INDEBTEDNESS STATEMENT

As at 30 September 2017, being the latest practicable date for the purpose of this indebtedness statement, the Group had aggregate bank loans of approximately RMB3,107.3 million comprising (a) unsecured bank loans of approximately RMB2,937.7 million; and (b) secured bank loans of approximately RMB169.6 million.

Foreign currency amounts have been, for the purposes of this indebtedness statement, translated into Renminbi at the approximately rates of exchange applicable at the close of business on 30 September 2017.

Save as disclosed in the previous paragraph, the Group had no other debt securities authorised or otherwise created but unissued, loans, or other similar indebtedness, term loans, other borrowing or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptance (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees as at 30 September 2017.

6. NO MATERIAL CHANGE

As disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group recorded a net profit of approximately RMB40.9 million for the six months ended 30 June 2017 as compared to a net profit of approximately RMB26.9 million for the same period of last year. Such improvement in the financial results of the Group for the six months ended 30 June 2017 was mainly due to the growth in sales volume of the Group's die steel and high speed steel products especially in the PRC domestic market and the increase in average selling price of such products driven by an upward pricing trend in rare metals to which the Group uses as raw materials.

The Directors confirmed that, save as disclosed above, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2016 (being the date to which the latest published audited consolidated accounts of the Group were made up) up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Share Offer and the Option Offer, the Offeror and the Group.

The information contained in this Composite Document relating to the Offeror and its Concert Parties has been supplied by the Offeror. The issue of this Composite Document has been approved by the sole director of Offeror, who accepts full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Group), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than those expressed by the Board) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The information contained in this Composite Document relating to the Group has been supplied by the Company. The issue of this Composite Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and its Concert Parties), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and its Concert Parties) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. INTERESTS AND DEALINGS IN THE SHARES OF THE OFFEROR

(a) Interests in shares of the Offeror

Since 2 June 2017 (being the date of incorporation of the Offeror) and up to and including the Latest Practicable Date, the Offeror has in issue one share that was subscribed by Mr. Zhu Zefeng upon the incorporation of the Offeror.

(b) Other Interests

As at the Latest Practicable Date, the Company, members of the Group, the Directors, pension fund of the Group and adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (excluding exempt principal traders), fund managers (other than exempt fund managers) connected with Company who managed funds on a discretionary basis had no interest in any Offeror's shares or convertible securities, warrants, options or derivatives in respect of such shares.

(c) Dealing in Offeror's shares

No person has dealt for value in any shares or any convertible securities, warrants, options or derivatives in respect of the shares of the Offeror during the Relevant Period.

3. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

Authorized:		*US$*
4,000,000,000	shares of US$0.0025 each	10,000,000
Issued and fully paid up:		*US$*
2,220,080,000	shares of US$0.0025 each	5,550,200

All of the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital. The Shares are listed on the main board of the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

Since 31 December 2016, being the date of the last audited consolidated financial statements of the Company, up to the Latest Practicable Date, the Company has not issued any Shares.

As at the Latest Practicable Date, the outstanding number of Options in respect of the Old Share Option Scheme were (i) 22,147,000 at an exercise price of HK$1.78 per Share with an exercise period expiring on 18 August 2019; and (ii) 18,970,000 at an exercise price of HK$0.60 per Share *with* an exercise period expiring on 31 December 2017; and there is no outstanding Options in respect of the New Share Option Scheme. If all of such Options were exercised, a total of 41,117,000 new Shares would be issued.

As at the Latest Practicable Date, apart from the Options, the Company had no outstanding options, warrants, derivatives or other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) that carry a right to subscribe for or which are convertible into the Shares.

4. DISCLOSURE OF INTERESTS IN THE SHARES

(a) Director's interests and short positions in Shares and shares in the Company's associated corporations

As at the Latest Practicable Date, the interests and short positions of the directors and the chief executive of the Company in the Shares and underlying shares of Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below:

(i) Interests in the Company

Name	Capacity/Nature of interest	Number of Shares/ underlying Shares held	Approximate percentage of interest in the Company
Mr. Zhu Xiaokun (1) and (2)	Interests of controlled corporations	787,390,000 (L)	35.47%
	Beneficial owner	1,600,000 (L)	0.07%
	Beneficial owner (3)	2,700,000 (L)	0.12%
		791,690,000 (L)	35.66%
Mr. Wu Suojun	Beneficial owner (4)	1,667,000 (L)	0.08%
Mr. Yan Ronghua	Beneficial owner (5)	800,000 (L)	0.04%
Mr. Jiang Guangqing	Beneficial owner (6)	600,000 (L)	0.03%

Notes: As at the Latest Practicable Date,

(1) THCL held 743,458,000 Shares. THCL was held as to 89.02% and 10.98% by Mr. Zhu Xiaokun and Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun, respectively. Mr. Zhu Xiaokun was deemed to be interested in the 743,458,000 Shares held by THCL. THCL has reported that it lent 50,000,000 Shares to an independent third party in December 2013 which were due and have yet to be returned. Such Shares are not included amongst the 743,458,000 Shares.

(2) SPHK, which was wholly-owned by Zhu Xiaokun, held 43,932,000 Shares.

(3) These are Options (physically settled) granted under Old Share Option Scheme exercisable into 2,700,000 Shares, of which Options for 500,000 Shares are at an exercise price of HK$1.78 with an exercise period expiring on 18 August 2019 and Options for 2,200,000 Shares are at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

(4) These are Options (physically settled) granted under Old Share Option Scheme exercisable into 1,667,000 Shares, of which Options for 867,000 Shares are at an exercise price of HK$1.78 with an exercise period expiring on 18 August 2019 and Options for 800,000 Shares are at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

(5) These are Options (physically settled) granted under Old Share Option Scheme exercisable into 800,000 Shares, of which Options for 300,000 Shares are at an exercise price of HK$1.78 with an exercise period expiring on 18 August 2019 and Options for 500,000 Shares are at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

(6) These are Options (physically settled) granted under Old Share Option Scheme exercisable into 600,000 Shares, of which Options for 300,000 Shares are at an exercise price of HK$1.78 with an exercise period expiring on 18 August 2019 and Options for 300,000 Shares are at an exercise price of HK$0.60 with an exercise period expiring on 31 December 2017.

(L) Represents long position.

References to directors being "interested" in shareholdings are interpreted in the manner described in Part XV of the SFO.

(ii) Interests in the shares of associated corporation

Name	Name of associated corporation	Capacity/Nature of interest	Number of Shares held	Approximate percentage of interest
Mr. Zhu Xiaokun	Jiangsu Tiangong Technology Company Limited ("**TG Tech**")	Beneficial owner	10,000,000 (L)	2.47%

Notes:

(L) Represents long position.

References to directors being "interested" in shareholdings are interpreted in the manner described in Part XV of the SFO.

Save for those disclosed under this section 4(a) above, as at the Latest Practicable Date, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

All of the Directors who hold any Shares intend, in respect of their own beneficial shareholdings in Company, to reject the Share Offer.

(b) Interests and short positions of substantial shareholders in the Company and its associated corporations

(i) Interests in Shares and underlying Shares

As at the Latest Practicable Date, other persons' interests in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange are set out below:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Yu Yumei (1)	Spousal interest (2)	791,690,000 (L)	35.66%
THCL (1)	Beneficial owner	743,458,000 (L)	33.49%
Guo Guangchang	Interests of controlled corporations (3)	136,290,000 (L)	6.14%
南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*)	Interests of controlled corporations (4)	136,290,000 (L)	6.14%
南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*)	Interests of controlled corporations (5)	136,290,000 (L)	6.14%

Notes:

(L) Represents long position.

(1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Ms. Yu Yumei.

(2) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the Shares held by Mr. Zhu Xiaokun. For information in relation to shares of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "4. Disclosure of interests in the Shares — (a) Director's interests and short positions in Shares and shares in the Company's associated corporations — (i) Interests in the Company".

(3) Mr. Guo Guangchang was deemed to hold a total of 136,290,000 Shares (long position) by virtue of his control over numerous corporations:

(a) Guo Guangchang controlled 64.45% of Fosun International Holdings Ltd.

(b) Fosun International Holdings Ltd. controlled 100% of 復星控股有限公司 (Fosun Holdings Limited).

(c) 復星控股有限公司 (Fosun Holdings Limited) controlled 71.55% of 復星國際有限公司 (Fosun International Ltd.).

(d) *復星國際有限公司 (Fosun International Ltd.) controlled 100% of 上海復星高科技(集團)有限公司 (Shanghai Fosun High Mainland China Technology (Group) Co., Ltd.).*

(e) *上海復星高科技(集團)有限公司 (Shanghai Fosun High Mainland China Technology (Group) Co., Ltd.) controlled 100% of 上海復星產業投資有限公司 (Shanghai Fosun Industrial Investment Co., Ltd.) and 30% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).*

(f) *上海復星產業投資有限公司 (Shanghai Fosun Industrial Investment Co., Ltd.) controlled 100% of 上海復星工業技術發展有限公司 (Shanghai Fosun Industrial Technology Development Co., Ltd.) and 20% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).*

(g) *上海復星工業技術發展有限公司 (Shanghai Fosun Industrial Technology Development Co., Ltd.) controlled 10% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).*

(h) *南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) controlled 100% of 南京鋼鐵聯合有限公司 (Nanjing Iron & Steel United Co., Ltd.) and 45.31% of 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.).*

(i) *南京鋼鐵聯合有限公司 (Nanjing Iron & Steel United Co., Ltd.) controlled 2.88% of 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.).*

(j) *南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) controlled 100% of 南京南鋼產業發展有限公司 (Nanjing Nangang Industry Development Co., Ltd.*).*

(k) *南京南鋼產業發展有限公司 (Nanjing Nangang Industry Development Co., Ltd.*) controlled 100% of 香港金騰國際有限公司 (Hong Kong Jinteng International Company Limited).*

(l) *香港金騰國際有限公司 (Hong Kong Jinteng International Company Limited) controlled 100% of Jin Tou Capital Limited which directly held 136,290,000 Shares.*

(4) *南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) was deemed to hold a total of 136,290,000 Shares (long position) by virtue of its control over numerous corporations:*

(a) *南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) controlled 34.87% of 南京鋼鐵創業投資有限公司 (Nanjing Iron & Steel Business Investment Co., Ltd.*).*

(b) *南京鋼鐵創業投資有限公司 (Nanjing Iron & Steel Business Investment Co., Ltd.*) controlled 51% of 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*).*

(c) *南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*) controlled 40% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).*

(d) *南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) in turn controlled various corporations set out in note 3(h) to (l) above.*

(5) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.) was deemed to hold a total of 136,290,000 Shares (long position) by virtue of its control over numerous corporations:*

(a) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.) controlled 49% of 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*).*

(b) 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.) controlled 40% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).*

(c) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) in turn controlled various corporations set out in note 3(h) to (l) above.

* *For identification purpose only*

(ii) Short positions in Shares and underlying Shares

As at the Latest Practicable Date, no persons had any short positions in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

(iii) Interests in the shares of associated corporation

As at the Latest Practicable Date, other persons' interests in the shares and underlying shares of associated corporation of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange are set out below:

Name	Name of associated corporation	Capacity/Nature of interest	Number of Shares held	Approximate percentage of interest
Ms. Yu Yumei	TG Tech	Spousal interest (1)	10,000,000 (L)	2.47%
Guo Guangchang	TG Tech	Interests of controlled corporations (2)	72,697,000 (L)	17.95%
南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron &Steel Group Co., Ltd.*)	TG Tech	Interests of controlled corporations (3)	72,697,000 (L)	17.95%
南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*)	TG Tech	Interests of controlled corporations (4)	72,697,000 (L)	17.95%

Notes:

(1) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the associated corporations of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of associated corporations of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "4. Disclosure of interests in the Shares — (a) Director's interests and short positions in Shares and shares in the Company's associated corporations — (ii) Interests in the shares of associated corporation".

(2) Guo Guangchang was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of his control over numerous corporations. For information in relation to the controlled corporations, please refer to note 3 of the paragraph headed "4. Disclosure of interests in the Shares — (b) Interests and short positions of substantial shareholders in the Company and its associated corporations — (i) Interests in Shares and underlying Shares".

(3) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations. For information in relation to the controlled corporations, please refer to note 4 of the paragraph headed "4. Disclosure of interests in the Shares — (b) Interests and short positions of substantial shareholders in the Company and its associated corporations — (i) Interests in Shares and underlying Shares".*

(4) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations. For information in relation to the controlled corporations, please refer to note 5 of the paragraph headed "4. Disclosure of interests in the Shares — (b) Interests and short positions of substantial shareholders in the Company and its associated corporations — (i) Interests in Shares and underlying Shares".*

* *For identification purpose only*

(c) Interests of Offeror and Concert Parties

As of the Latest Practicable Date, save in respect of the interests of Mr. Zhu Xiaokun, Ms, Yu Yumei, THCL and SPHK as disclosed in paragraph 4(b) above and Mr. Zhu Zefeng's interests in Options granted under the Old Share Option Scheme exercisable into 500,000 Shares, no Offeror or Concert Party of the Offeror owned or controlled any Shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group.

(d) Interests of Director of Offeror

As at the Latest Practicable Date, Mr. Zhu Zefeng held Options granted under the Old Share Option Scheme exercisable into 500,000 Shares.

As of the Latest Practicable Date, save as disclosed above, no director of the Offeror owned or controlled any shares or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company or any member of the Group.

(e) Other Interests

As at the Latest Practicable Date,

(1) none of the subsidiaries of the Company, any pension fund of the Group or any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;

(2) no person who had such an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or its Concert Parties or with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;

(3) no Shares or any convertible securities, warrants, options or derivatives in respect of the Shares were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(4) save for an aggregate of 50,000,000 Shares, representing approximately 2.252% of the total issued share capital of the Company, lent by THCL to an independent third party on 9 December 2013 which THCL does not have acknowledge as to such borrowed Shares have been on-lent or sold return and the return of such borrowed Share is due, neither the Offeror nor its Concert Parties or the Company nor any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares, save for any borrowed Shares which had been either on-lent or sold; and

(5) there is no person who, prior to the Latest Practicable Date, have irrevocably committed himself to accept or reject the Offers.

5. DEALINGS IN THE SHARES

During the Relevant Period,

(a) none of the Offeror and its Concert Parties (excluding exempt principal traders);

(b) none of the director of the Offeror;

(c) none of the subsidiaries of the Company, any pension fund of the Group or any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code (but excluding exempt principal traders);

(d) no person who had such an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code;

(e) no fund managers (other than exempt fund managers) connected with the Company who managed Shares on a discretionary basis;

(f) none of the Directors;

(g) no person with whom the Offeror or its Concert Parties has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;

had dealt for value in Shares or other convertible securities, warrants, options and derivatives in respect of any Shares.

6. OTHER ARRANGEMENTS AND AGREEMENTS

(a) As at the Latest Practicable Date, none of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offers.

(b) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between the Offeror or any of its Concert Parties and any of the Directors, recent Directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Offers.

(c) As at the Latest Practicable Date, there was no agreement or arrangement to which the Offeror is party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offers.

(d) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 of Rule 22 of the Takeovers Code between the Offeror or any of its Concert Parties or any of their other associates, and any other person.

(e) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between any person and any member of the Group or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code.

(f) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors has a material personal interest.

(g) As at the Latest Practicable Date, save for (i) the Share Charge by the Offeror in respect of Shares acquired pursuant to the Share Offer and (ii) the Share Mortgage by Mr. Zhu Zefeng in respect of the shares of the Offeror in favour of ABCI Securities Company Limited as security for the facility provided to the Offeror for the purpose of financing part of the Share Offer, neither the Offeror nor its Concert Parties has any agreement, arrangement for or understanding for any transfer, charge or pledge of Shares acquired pursuant to the Share Offer to any other person.

(h) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.

7. MARKET PRICES OF THE SHARES

(a) During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK$0.97 on 17 March 2017 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK$0.63 on 25 May 2017 and 26 May 2017.

(b) The table below sets out the closing prices of the Shares as quoted by the Stock Exchange: (i) on the Latest Practicable Date; (ii) on the Last Trading Date; and (iii) on the last business day of each of the six calendar months immediately preceding the commencement of the Offer Period and ending on the Latest Practicable Date:

Date	**Closing price** *HK$*
31 March 2017	0.87
28 April 2017	0.77
31 May 2017	0.66
30 June 2017	0.68
31 July 2017	0.82
31 August 2017	0.82
11 September 2017 (Last Trading Date)	0.80
29 September 2017	0.89
25 October 2017 (Latest Practicable Date)	0.90

8. DIRECTORS' SERVICE CONTRACTS

Save as disclosed in this section 8, as at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which are fixed term contracts with more than 12 months to run irrespective of notice period, or which has been entered into and amended within six months before the commencement of the Offer Period, or which are continuous contracts with a notice period of 12 months or more.

Director	Commencement date of the service contract	Expiry date of the service contract	Amount of remuneration payable under the service contract
Mr. Zhu Xiaokun	26 May 2017	For a period of three years commencing from 26 May 2017 until the date of the annual general meeting of the Company to be held in 2020, subject to rotation of Directors requirements under the Listing Rules and the articles of association of the Company	RMB168,000 per year and a discretionary bonus, the amount of which is determined with reference to the operating results of Group
Mr. Wu Suojun	26 May 2017	For a period of three years commencing from 26 May 2017 until the date of the annual general meeting of the Company to be held in 2020, subject to rotation of Directors requirements under the Listing Rules and the articles of association of the Company	RMB149,000 per year and a discretionary bonus, the amount of which is determined with reference to the operating results of Group
Mr. Yan Ronghua	18 May 2016	For a period of three years commencing from 18 May 2016 until the date of the annual general meeting of the Company to be held in 2019, subject to rotation of Directors requirements under the Listing Rules and the articles of association of the Company	RMB135,000 per year and a discretionary bonus, the amount of which is determined with reference to the operating results of Group
Mr. Jiang Guangqing	20 May 2015	For a period of three years commencing from 20 May 2015 until the date of the annual general meeting of the Company to be held in 2018, subject to rotation of directors requirements under the Listing Rules and the articles of association of the Company	RMB91,000 per year and a discretionary bonus, the amount of which is determined with reference to the operating results of Group
Mr. Gao Xiang	26 May 2017	For a period of one year commencing from 26 May 2017 until the date of the annual general meeting of the Company to be held in 2018, subject to rotation of Directors requirements under the Listing Rules and the articles of association of the Company	RMB36,000 per year
Mr. Lee Cheuk Yin, Dannis	26 May 2017	For a period of one year commencing from 26 May 2017 until the date of the annual general meeting of the Company to be held in 2018, subject to rotation of Directors requirements under the Listing Rules and the articles of association of the Company	HK$96,000 per year

Director	Commencement date of the service contract	Expiry date of the service contract	Amount of remuneration payable under the service contract
Mr. Wang Xuesong	26 May 2017	For a period of one year commencing from 26 May 2017 until the date of the annual general meeting of the Company to be held in 2018, subject to rotation of Directors requirements under the Listing Rules and the articles of association of the Company	HK$96,000 per year

Save as disclosed above, no variable remuneration (e.g. commission on profit) is payable to the relevant Directors under the Directors' service contracts disclosed in this section 8.

9. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group were engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

10. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Group) during the period within the two years before the commencement of the Offer Period and up to the Latest Practicable Date:

(a) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 7 March 2016 entered into between Jiangsu Tiangong Technology Company Limited ("**TG Tech**", a subsidiary of the Company) and Nanjing Steel Company Limited (南京鋼鐵股份有限公司), pursuant to which Nanjing Steel Company Limited (南京鋼鐵股份有限公司) agreed to subscribe for 40,000,000 shares in TG Tech for RMB49,600,000;

(b) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Nanjing Steel Company Limited (南京鋼鐵股份有限公司), pursuant to which Nanjing Steel Company Limited (南京鋼鐵股份有限公司) agreed to subscribe for 35,000,000 shares in TG Tech for RMB43,400,000;

(c) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Mr. Zhu Xiaokun, pursuant to which Mr. Zhu Xiaokun agreed to subscribe for 10,000,000 shares in TG Tech for RMB12,400,000;

(d) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Mr. Jiang Rongjun (蔣榮軍), pursuant to which Mr. Jiang Rongjun agreed to subscribe for 5,000,000 shares in TG Tech for RMB6,200,000;

(e) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Mr. Wang Gang (王剛), pursuant to which Mr. Wang Gang agreed to subscribe for 3,000,000 shares in TG Tech for RMB3,720,000;

(f) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Mr. Xu Shaoqi (徐少奇), pursuant to which Mr. Xu Shaoqi agreed to subscribe for 3,000,000 shares in TG Tech for RMB3,720,000;

(g) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Ms. Yang Zhao (楊昭), pursuant to which Ms. Yang Zhao agreed to subscribe for 3,000,000 shares in TG Tech for RMB3,720,000;

(h) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Mr. Chen Jie (陳杰), pursuant to which Mr. Chen Jie agreed to subscribe for 3,000,000 shares in TG Tech for RMB3,720,000; and

(i) the subscription agreement (關於江蘇天工科技股份有限公司的定向增發認購協議) dated 6 June 2016 entered into between TG Tech and Mr. Zhu Linfei (朱林飛), pursuant to which Mr. Zhu Linfei agreed to subscribe for 3,000,000 shares in TG Tech for RMB3,720,000.

For details of item (a) above, please refer to the announcement of the Company dated 7 March 2016. For details of items (b) to (i) above, please refer to the announcement and the circular of the Company dated 6 June 2016 and 23 June 2016, respectively.

11. EXPERTS

The following are the qualifications of each of the experts who have been named in this Composite Document or who have given their opinion or advice, which is contained in this Composite Document:

Name	Qualification
ABCI	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in relation to the Offers

Name	Qualification
Optima Capital	a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee

12. CONSENTS

Each of ABCI and Optima Capital has given and has not withdrawn their respective consents to the issue of this Composite Document with the inclusion in this Composite Document of the text of their respective letters and references to their names in the form and context in which they are included.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) on the websites of the Company (www.tggj.cn) and the SFC (www.sfc.hk); (ii) at the registered office of Offeror at offices of Vistra (Cayman) Limited, P. 0. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KYl-1205 Cayman Islands and the registered office in Hong Kong of the Company at Unit 1303, 13/F Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m., Monday to Friday (except public holidays) from the date of this Composite Document until the Closing Date or the date on which the Offers are withdrawn or lapse, whichever is the earliest:

(a) the memorandum and articles of association of the Offeror;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for the two years ended 31 December 2015 and 31 December 2016;

(d) the interim report of the Company for the six months ended 30 June 2017;

(e) the "Letter from ABCI", the text of which is set out on pages 7 to 20 of this Composite Document;

(f) the letter from the Board, the text of which is set out on pages 21 to 26 of this Composite Document;

(g) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this Composite Document;

(h) the letter of advice from Optima Capital, the text of which is set out on pages 29 to 52 of this Composite Document;

(i) Directors' service contracts as referred to the section headed "Directors' Service Contracts";

(j) the letter of written consents as referred to in the section headed "Consents" in this Appendix III; and

(k) the material contracts as referred to in the section headed "Material Contracts" in this Appendix III.

14. MISCELLANEOUS

(a) The Offeror was incorporated in the Cayman Islands on 2 June 2017 by Mr. Zhu Zefeng as the founding shareholder for the sole purpose of making the Offers and holding the Shares. The Offeror has not carried out any business activities other than making the Offers.

(b) The registered office of the Offeror is at offices of Vistra (Cayman) Limited, P. O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KYl-1205 Cayman Islands. The address of the Offeror in Hong Kong is at Room 1508, 15/F., Hing Yip Commercial Centre, 272–284 Des Voeux Road Central, Hong Kong.

(c) The registered office of the Company is P.O. Box 309, G.T. Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The head office and principal place of business of the Company in the PRC is Danbei Town, Zhenjiang City, Jiangsu Province, The PRC. The registered office in Hong Kong of the Company is Unit 1303, 13/F Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) As at the Latest Practicable Date, the sole director of the Offeror is Mr. Zhu Zefeng.

(f) As at the Latest Practicable Date, the board of directors of the Company comprises Mr. Zhu Xiaokun, Mr. Wu Suojun, Mr. Jiang Guangqing, Mr. Yan Ronghua, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong.

(g) The principal place of business of ABCI is at 11/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong.

(h) The principal place of business of Optima Capital is at Unit 1501, 15/F Jardine House, 1 Connaught Place, Central, Hong Kong.

(i) The English language text of this Composite Document shall prevail over the Chinese language text.