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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Year ended 31 December 2015	Year ended 31 December 2014	Change
Revenue	**3,429.4**	4,535.7	(24.4%)
Gross profit	**391.3**	908.8	(56.9%)
Net profit attributable to equity shareholders of the Company	**72.6**	463.5	(84.3%)
Basic earnings per share *(RMB)*	**0.033**	0.230	(85.7%)
Gross profit margin	**11.4%**	20.0%	(8.6 ppt)
Net profit margin	**2.1%**	10.2%	(8.1 ppt)
Net Assets	**3,876.3**	3,929.8	(1.4%)
Net Debt [(1)]	**1,898.0**	1,847.2	2.8%
Net Gearing [(2)]	**49.0%**	47.0%	2.0 ppt

Notes:

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

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

The board of directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 and the consolidated statement of financial position of the Group as at 31 December 2015, together with the comparative figures for the same period of 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	Note	**2015** *RMB'000*	2014 *RMB'000*
Revenue	4	**3,429,397**	4,535,670
Cost of sales		**(3,038,061)**	(3,626,838)
Gross profit		**391,336**	908,832
Other income	5	**19,324**	26,517
Distribution expenses		**(67,855)**	(70,500)
Administrative expenses		**(115,404)**	(123,834)
Other expenses	6	**(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	7(a)	**(140,719)**	(141,899)
Share of profits/(losses) of associates		**5,857**	(2,702)
Share of profits of joint ventures		**6,820**	6,391
Profit before taxation	7	**85,205**	544,168
Income tax	8	**(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)*	9		
Basic		**0.033**	0.230
Diluted		**0.033**	0.230

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2015

	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)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of Hong Kong subsidiaries and overseas equity-accounted investees (net of nil tax)	**(27,787)**	(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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment		**3,243,542**	2,998,727
Lease prepayments		**74,372**	75,512
Goodwill		**21,959**	22,086
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
		3,432,974	3,168,657
Current assets			
Inventories		**1,886,643**	1,952,781
Trade and other receivables	10	**1,895,480**	2,114,526
Pledged deposits		**445,389**	404,400
Time deposits		**400,000**	543,100
Cash and cash equivalents		**323,486**	181,373
		4,950,998	5,196,180
Current liabilities			
Interest-bearing borrowings		**2,580,896**	2,342,903
Trade and other payables	11	**1,347,335**	1,340,910
Current taxation		**—**	60,240
Deferred income		**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		**485,978**	633,149
Deferred income		**48,168**	16,543
Deferred tax liabilities		**44,146**	40,109
		578,292	689,801
Net assets		**3,876,287**	3,929,821
Capital and reserves			
Share capital		**40,167**	40,167
Reserves		**3,836,120**	3,887,758
Total equity attributable to equity shareholder of the Company		**3,876,287**	3,927,925
Non-controlling interests		**—**	1,896
Total equity		**3,876,287**	3,929,821

NOTES

1 REPORTING ENTITY

Tiangong International Company Limited (the "Company") was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and joint ventures. The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

2 BASIS OF PREPARATION

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 31 December 2015 but are extracted from those financial statements.

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

The figures in respect of this announcement of the Group's results for the year ended 31 December 2015 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in respect of this announcement was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditor on this announcement.

3 CHANGES IN ACCOUNTING POLICIES

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

4 REVENUE AND SEGMENT REPORTING

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

The Group has five reportable segments, as described below, which are the Group's product divisions. For each of the product divisions the Chairman (the chief operating decision maker) reviews internal management reports on at least a monthly basis. No operating segments have been aggregated to form the following reportable segments. The following summary describes the operations in each of the Group's reportable segments:

— *HSS*	The HSS segment manufactures and sells high speed steel for the steel industry.
— *HSS cutting tools*	The HSS cutting tools segment manufactures and sells HSS cutting tools for the tool industry.
— *DS*	The DS segment manufactures and sells die steel for the steel industry.
— *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy for the titanium industry.
— *Trading of goods*	The trading of goods segment sells billet steel, and screw steel.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Chairman (the chief operating decision maker) monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in associates, interest in joint ventures, other financial assets, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other corporate assets. Segment liabilities include trade and bills payable, non-trade payables, deferred income and accrued expenses attributable to the manufacturing and sales activities of the individual segments, with the exception of interest-bearing borrowing, current taxation, deferred tax liabilities and other head office and corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBIT", i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance costs. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and joint ventures and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales) generated by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

	Year ended and as at 31 December 2015					
	HSS	**HSS cutting tools**	**DS**	**Trading of goods**	**Titanium alloy**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**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	HSS cutting tools	DS	Trading of goods	Titanium alloy	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,080,892	550,448	1,660,175	1,111,451	132,704	4,535,670
Inter-segment revenue	227,993	—	—	—	—	227,993
Reportable segment revenue	1,308,885	550,448	1,660,175	1,111,451	132,704	4,763,663
Reportable segment profit (adjusted EBIT)	291,451	49,139	477,747	2,868	17,127	838,332
Reportable segment assets	2,383,834	1,233,701	3,177,264	25,499	305,367	7,125,665
Reportable segment liabilities	567,810	244,634	492,218	—	27,725	1,332,387

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

	2015	2014
	RMB'000	*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	2014
	RMB'000	*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

	2015	2014
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**7,092,375**	7,125,665
Trade and other receivables *(note 10)*	**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

	2015	2014
	RMB'000	*RMB'000*
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).

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	2014
	RMB'000	*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.

5 OTHER INCOME

		2015	2014
		RMB'000	*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

(i) Tiangong Tools Company Limited ("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.

(ii) The Group received dividends totalling to RMB800,000 (2014: RMB800,000) from its unlisted equity investments during the year ended 31 December 2015.

6 OTHER EXPENSES

	2015	2014
	RMB'000	*RMB'000*
Impairment loss on trade receivables	**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

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2015	2014
	RMB'000	*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%).

(b) Staff costs

	2015	2014
	RMB'000	*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	**—**	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

	2015	2014
	RMB'000	*RMB'000*
Cost of inventories*	**3,038,061**	3,626,838
Depreciation of property, plant and equipment	**190,416**	173,770
Amortisation of lease prepayments	**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 7(b) for each of these types of expenses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2015 *RMB'000*	2014 *RMB'000*
Current tax		
Provision for PRC income tax	**12,956**	67,878
Provision for Hong Kong Profits Tax	**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.

(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

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of 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	—	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.

10 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	**(76,618)**	(66,420)
Net trade and bills receivable	**1,670,158**	1,986,120
Prepayments	**186,298**	90,450
Current taxation	**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

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 certain banks as security for the Group to issue bank loans.

(a) Ageing analysis

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

	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 debtors and bills receivable are due from 90 to 180 days from the date of billing.

(b) Impairment of trade and bills receivable

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

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

	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

(c) Trade and bills receivable that are not impaired

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

	2015	2014
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,204,931**	1,427,285
Less than 3 months past due	**13,961**	11,374
More than 3 months but less than 6 months past due	**2,556**	997
More than 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.

11 TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	*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

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	2014
	RMB'000	*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

12 DIVIDENDS

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

	2015	2014
	RMB'000	*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 previous financial year, approved and paid during the year

	2015	2014
	RMB'000	*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 the 2014 annual result announcement and the actual exchange rate applied on the date of payment.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

Revenue

	For the year ended 31 December					
	2015		2014		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
DS	**1,017,875**	**29.7**	1,660,175	36.6	(642,300)	(38.7)
HSS	**678,679**	**19.8**	1,080,892	23.8	(402,213)	(37.2)
HSS cutting tools	**514,857**	**15.0**	550,448	12.1	(35,592)	(6.5)
Titanium alloy	**173,361**	**5.1**	132,704	2.9	40,657	30.6
Trading of goods	**1,044,625**	**30.4**	1,111,451	24.6	(66,827)	(6.0)
	3,429,397	**100.0**	4,535,670	100.0	(1,106,273)	(24.4)

DS — accounted for 29.7% of the Group's revenue in FY 2015

	For the year ended 31 December					
	2015		2014		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
DS						
Domestic	**333,637**	**32.8**	981,908	59.1	(648,270)	(66.0)
Export	**684,238**	**67.2**	678,267	40.9	5,971	0.9
	1,017,875	**100.0**	1,660,175	100.0	(642,300)	(38.7)

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

During the year, revenue generated from DS decreased by approximately 38.7% to RMB1,017,875,000 (2014: RMB1,660,175,000). The Group's domestic revenue in DS decreased by 66.0% to RMB333,637,000 (2014: RMB981,908,000), contributing 32.8% of the segment revenue for the year. The decrease in domestic revenue was mainly because of the decline in demand due to the slowdown in China's economic growth and decrease in average selling price in domestic market.

The Group's focus in DS was shifted to the overseas markets due to the slowdown in domestic economic growth. 67.2% of the segment revenue was derived from the export sales during the year. The Group's export revenue was all denominated in foreign currencies. The increase in the Group's export sales volume was partially offset by the depreciation in Euro and decrease in average selling price, resulting a net increase of 0.9% to RMB684,238,000 (2014: RMB678,267,000).

HSS — accounted for 19.8% of the Group's revenue in FY2015

	For the year ended 31 December					
	2015		2014		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
HSS						
Domestic	**471,250**	**69.4**	871,170	80.6	(399,920)	(45.9)
Export	**207,429**	**30.6**	209,722	19.4	(2,293)	(1.1)
	678,679	**100.0**	1,080,892	100.0	(402,213)	(37.2)

HSS, manufactured with rare metals including tungsten, molybdenum, chromium and vanadium, is characterized by greater hardness, heat resistance and durability. These attributes make HSS suited to such applications as cutting tools and in the manufacturing of high-temperature bearings, high-temperature springs, internal-combustion engines and roll, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation, and electronics industries.

HSS experienced a similar decline in demand and average selling price in domestic market as was in DS. The domestic revenue decreased by 45.9% to RMB471,250,000 (2014: RMB871,170,000).

In the overseas markets, the Group achieved approximately 15% increase in export volume during the year. However, the depreciation in Euro and the decrease in global average selling price offset the effect on the increased sales volume, resulting a net decrease in export revenue by 1.1% to RMB207,429,000 (2014: RMB209,722,000).

HSS cutting tools — accounted for 15.0% of the Group's revenue in FY 2015

	For the year ended 31 December					
	2015		2014		Change	
	RMB'000	**%**	*RMB'000*	%	*RMB'000*	%
HSS cutting tools						
Domestic	**186,496**	**36.2**	209,947	38.1	(23,451)	(11.2)
Export	**328,361**	**63.8**	340,501	61.9	(12,140)	(3.6)
	514,857	**100.0**	550,448	100.0	(35,592)	(6.5)

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

In 2015, revenue of HSS cutting tools generated from domestic market was affected by the significant decrease in the average selling price, resulting a decrease in domestic revenue by 11.2% to RMB186,496,000 (2014: RMB209,947,000).

Comparing to the domestic market, the average selling price of HSS cutting tools in overseas markets was relatively stable. The export revenue recorded a slight decrease of 3.6% to RMB328,361,000 (2014: RMB340,501,000), which represented 63.8% of the segment revenue.

Titanium alloy — increased by 30.6% to RMB173,361,000 in 2015 (2014: RMB132,704,000)

Titanium alloy is lighter, stronger and has a higher corrosion resistance compared to aluminum alloy. Thus, it finds applications in aviation, marine engineering and the medical industries. Its production involves sponge titanium as well as other various rare metals. The production of titanium and titanium alloy is both capital and technology intensive. Thus, it is an industry with high entry barrier.

Titanium alloy segment has been a rapidly developing segment among the Group's products. During the year, titanium alloy revenue recorded a remarkable increase of 30.6% to RMB173,361,000 (2014: RMB132,704,000). The increase was mainly attributable to the Group's efforts in market development by offering a broad range of products in titanium and titanium alloys. The Group will continue to offer a broader range of products with higher grades and specifications to meet demands from various industries.

Trading of goods

This segment involves the purchase and sales of goods which mainly comprises billet steel and screw steel. Due to its slim profitability, the Group will place less focus in this segment in the future.

Financial Review

Net profit attributable to equity shareholders of the Company decreased by 84.3% from RMB463,466,000 in 2014 to RMB72,623,000 in 2015. The decrease was mainly attributable to (i) the decrease in demand due to the slowdown in China's economic growth during the year; (ii) the depreciation of Euro which affected the export revenue of the Group; and (iii) the decline in the global average selling price in steel products.

Revenue

Revenue for the Group for 2015 totalled RMB3,429,397,000, representing a decrease of 24.4% as compared with RMB4,535,670,000 in 2014. The decrease was mainly due to the decline in the global average selling price in steel products. Among the Group's products, the traditional core segments of DS and HSS were more significantly affected.

Cost of sales

The Group's cost of sales was RMB3,038,061,000 in 2015, representing a decrease of 16.2% as compared with RMB3,626,838,000 in 2014 as a result of reduction of sales. As a percentage of total revenue, the Group's cost of sales increased to 88.6% during the year (2014: 80.0%). The increase was mainly due to the thinner margin realised by the Group's products during the year when the global average selling price in steel products declined.

Gross margin

For 2015, the overall gross margin was approximately 11.4% (2014: 20.0%). Set out below is the gross margin of our five products segments in 2015 and 2014:

	2015	2014
DS	**15.2%**	31.5%
HSS	**19.4%**	28.1%
HSS cutting tools	**15.4%**	11.1%
Titanium alloy	**13.6%**	12.9%
Trading of goods	**0.2%**	0.3%

DS

The gross margin of DS decreased from 31.5% in 2014 to 15.2% in 2015. The decrease was mainly due to the significant decrease in average selling price in both domestic and overseas markets.

HSS

The gross margin of HSS decreased from 28.1% in 2014 to 19.4% in 2015. The decrease was mainly due to the significant decrease in average selling price in both domestic and overseas markets.

HSS cutting tools

The gross margin of HSS cutting tools increased from 11.1% in 2014 to 15.4% in 2015. Although the average selling price of HSS cutting tools declined in domestic market, the average selling price of HSS cutting tools in overseas markets was relatively stable. The material costs also experienced a decline in PRC market. Since all the production materials of HSS cutting tools were purchased locally in PRC, the Group's overall material costs for HSS cutting tools was contracted. Averaging the domestic and overseas markets, there was a net increase in the gross margin.

Titanium alloy

The gross margin of titanium alloy increased from 12.9% in 2014 to 13.6% in 2015. The increase was attributable to (i) the increase in sales volume so that fixed costs were shared to more units of goods resulting in a decrease in the per-unit product costs; and (ii) the decrease in cost of materials.

Trading of goods

The gross margin of this segment remained stable at 0.2% (2014: 0.3%).

Other income

Other income decreased from RMB26,517,000 in 2014 to RMB19,324,000 in 2015. The decrease was mainly due to the decrease of government grants from RMB22,300,000 in 2014 to RMB6,808,000 in 2015. The effect was partially offset by the net foreign exchange gain recognised by the Group on its foreign currency denominated assets and liabilities.

Distribution expenses

Distribution expenses in 2015 were RMB67,855,000 (2014: RMB70,500,000), representing a decrease of approximately 3.8%. The decrease was mainly attributable to the decrease in various distribution related expenses due to the decrease of sales volume. For 2015, the distribution expenses as a percentage of revenue was 2.0% (2014: 1.6%).

Administrative expenses

Administrative expenses decreased from RMB123,834,000 in 2014 to RMB115,404,000 in 2015. The decrease was mainly due to the reduction in labour costs during the year. For 2015, administrative expenses as a percentage of revenue was 3.4% (2014: 2.7%).

Other expenses

Other expenses decreased from RMB58,637,000 in 2014 to RMB14,154,000 in 2015 mainly because a specific provision was made in 2014 for a specific debtor that went into financial difficulties. No additional customers with significant debt provisions were identified for specific provision in 2015.

Net finance costs

The Group's finance income was RMB8,521,000 in 2015, representing a decrease of RMB816,000 primarily due to the decrease in the bank interest rate in 2015. The Group's finance expense was RMB149,240,000 in 2015, which was relatively stable comparing to the RMB151,236,000 in 2014.

Income tax

As set out in Note 8 of the consolidated statement of profit or loss above, the Group's income tax decreased by 83.9% from RMB81,421,000 in 2014 to RMB13,074,000 in 2015, mainly because of decrease of the Group's profit before taxation for the year.

Profit for the year attributable to equity shareholders of the Company

As a result of the factors discussed above, the Group's profit decreased by approximately 84.3% from RMB463,466,000 in 2014 to RMB72,623,000 in 2015. The net profit margin decreased from 10.2% in 2014 to 2.1% in 2015.

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

For 2015, total comprehensive income for the year attributable to equity shareholders of the Company was RMB44,836,000 (2014: RMB462,062,000) after taking into account of foreign currency translation differences.

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

Trade and bills receivable

The trade and bills receivable decreased from RMB1,986,120,000 in 2014 to RMB1,670,158,000 in 2015 which was mainly due to the decrease in sales in 2015 as compared with 2014. Approximately 72.1% of the trade and bills receivable were neither past due nor impaired. During the year, the provision for doubtful debts was increased by RMB10,198,000 for the worsening financial position and slower settlement records of certain customers.

Outlook

During the year, the Group's traditional core segment was affected by the decline in global average selling price in steel products and decrease in demand in domestic markets due to the slowdown on China's economic growth. Despite the global economic turndown in 2015, the Group sustained its production scale and strived to retain its operating competitiveness and profitability.

Going forward into 2016, the situation of overcapacity and imbalance between supply and demand will continue to persist in the industry. As a leading enterprise in special steel industry in China, the Group is well prepared to benefit from the China's national supply side reform policy.

The Group will continue to streamline its operation and develop higher end products, such as solid carbide tools. We will get prepared for the rebound after the cleaning up of zombie corporations and overcapacity and rebalancing of supply and demand in the industry. Concurrently, the Group will still continue to extend its overseas sales network in markets such as Canada, Mexico, Thailand and Vietnam, by finding appropriate trading partners.

Titanium alloy segment has been identified as a growth area among the Group's various business. The Group is confident that the extensive application of titanium alloy in various industries will drive up the demand of titanium alloy in the near future. During the year, TG Tech, an indirectly wholly-owned subsidiary of the Company mainly engaged in developing and sales of titanium alloy products, has successfully obtained the approval to quote its shares on the National Equities Exchange and Quotations System (the "NEEQ System") (for further details, please refer to the announcements of the Company dated 28 August 2015, 16 October 2015, 24 November 2015 and 2 December 2015). With the quotation of TG Tech on the NEEQ System, the Group will seek for appropriate cooperation opportunities to expand the production capacity as well as the upstream and downstream product extension. At the same time, focus will be put on the research and development to advance the production process of titanium alloy pipes, flat sheets, plate and wire.

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"). Assuming no new shares of TG Tech will be issued between the date of this announcement and the date of the completion of 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. TG Tech intends to use the proceeds from the Placing for the replenishment of its working capital, which enables TG Tech to (i) increase its production capacity; (ii) strengthen its current research and development level; and (iii) increase its financial strength. Subsequently on 23 March 2016, the Placing and the subscription agreement were resolved and approved in the extraordinary general meeting. As of the date of this announcement, the Placing has not been completed yet. (for further details, please refer to the announcements of the Company dated 7 March 2016 and 24 March 2016.)

Finally, we re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance is always our top priority.

Forward Looking Statements

This management discussion and analysis contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward looking statements involve inherent risks and uncertainties. Readers including shareholders and investors should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

Liquidity and Financial Resources

As at 31 December 2015, the Group's current assets mainly included cash and cash equivalents of approximately RMB323,486,000, inventories of approximately RMB1,886,643,000, trade and other receivables of RMB1,895,480,000, pledged deposits of RMB445,389,000 and time deposits of RMB400,000,000. As at 31 December 2015, the interest-bearing borrowings of the Group were RMB3,066,874,000, RMB2,580,896,000 of which were repayable within one year and RMB485,978,000 of which were repayable after more than one year. The Group's adjusted net debt-to-equity ratio, which is calculated based on adjusted net debt (defined as total interest-bearing borrowings plus unaccrued proposed dividends, less cash and cash equivalents) divided by adjusted capital (comprising all components of equity, less unaccrued proposed dividends) as at 31 December 2015, was 71.4% (2014: 75.2%).

The increase in borrowings was mainly attributable to the increase in working capital and the addition of machineries. As at 31 December 2015, borrowings of RMB1,984,100,000 were in RMB, USD136,440,160 were in USD and EUR29,411,544 were in EUR. The borrowings of the Group were subject to interests payable at rates ranging from 0.70% to 6.16% per annum. The Group did not enter into any financial instruments to hedge itself against the risks associated with interest rates and foreign currency exchange fluctuations.

During the year, the net cash generated from operating activities was RMB632,532,000 (2014: RMB566,196,000).

Capital Expenditure and Capital Commitments

For 2015, the Group's net increase in fixed assets amounted to RMB244,815,000, which were mainly for the production plant and facilities for HSS, DS and titanium alloy and were financed by a combination of our internal cash resources, operating cash flows and bank borrowings. As at 31 December 2015, capital commitments were RMB467,945,000, of which RMB45,449,000 were contracted and RMB422,496,000 were authorised but not contracted for. The majority of the capital commitments were related to investment in factory building and production line of HSS and DS sheet.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, USD and EUR, with RMB accounting for the largest portion (approximately 70.8%). Approximately 29.2% of total sales and the Group's costs and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in the light of foreign exchange fluctuations and incentivising overseas customers to settle balances on a more timely basis to minimize the financial impact from exchange rate exposure.

Pledge of Assets

As at 31 December 2015, the Group pledged certain bank deposits amounting to approximately RMB445,389,000 (2014: RMB404,400,000) and certain trade receivables amounting to approximately RMB91,509,000 (2014: RMB285,273,000).

Employees' Remuneration and Training

As at 31 December 2015, the Group employed around 3,270 employees (2014: around 3,451 employees). Total staff costs during the year amounted to RMB189,240,000 (2014: RMB208,441,000). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous training for all of its staff on a regular basis.

Contingent Liabilities

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

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 May 2016 to 18 May 2016 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "Annual General Meeting") on 18 May 2016, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 12 May 2016.

The Board has resolved to recommend the payment of a final dividend of RMB0.0065 per share for the year ended 31 December 2015 (2014: RMB0.0418) to shareholders of the Company whose names appear on the register of members of the Company on 27 May 2016. The register of members will be closed from 24 May 2016 to 27 May 2016, both days inclusive, and the proposed final dividend is expected to be paid on or before 30 July 2016. The payment of dividends shall be subject to the approval of the shareholders of the Company at the Annual General Meeting expected to be held on 18 May 2016. In order to qualify for the proposed dividend, shareholders of the Company should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 23 May 2016.

SHARE OPTIONS SCHEME

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

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

On 18 August 2014, options entitled holders to subscribe for a total of 22,147,000 shares of USD0.0025 each were granted to and accepted by certain directors and employees of the Company in respect of their services to the Group. These share options were vested on 19 August 2014 and have an initial exercise price of HKD1.78 per share of USD0.0025 each and an exercise period ranging from 19 August 2014 to 18 August 2019. The closing price of the Company's shares at the date of grant was HKD1.78 per share of USD0.0025 each.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

The Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2015, except for the following deviation:

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors ("INEDs") and other non-executive directors should also attend general meetings. Two of the INEDs, namely Mr. Yin Shuming and Mr. Gao Xiang were unable to attend the annual general meeting of the Company held on 20 May 2015 due to health reasons.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 29 March 2016 to consider and review the 2015 annual report and annual financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considered that the 2015 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). All of the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors and employees who may possess or have access to price sensitive information or inside information during the year ended 31 December 2015.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2015 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

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

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

Hong Kong, 30 March 2016

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

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

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

* *For identification purpose*