天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

Annual Report **2015**

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* For identification purpose only

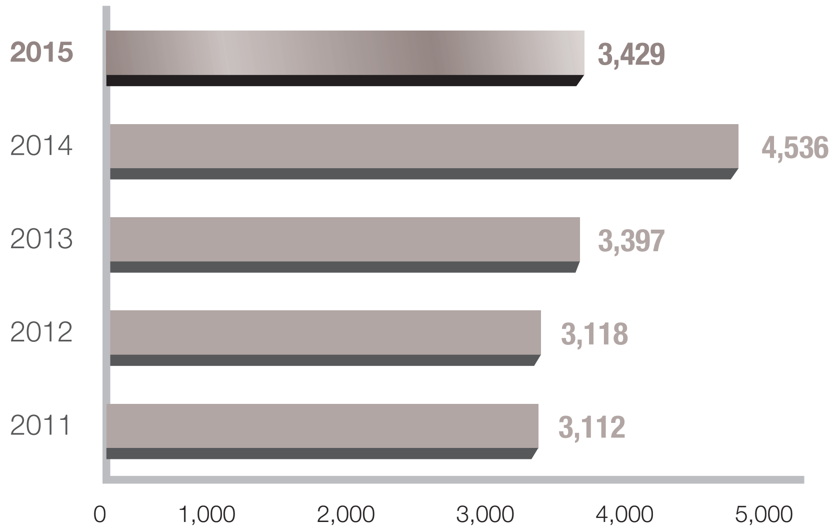
Contents



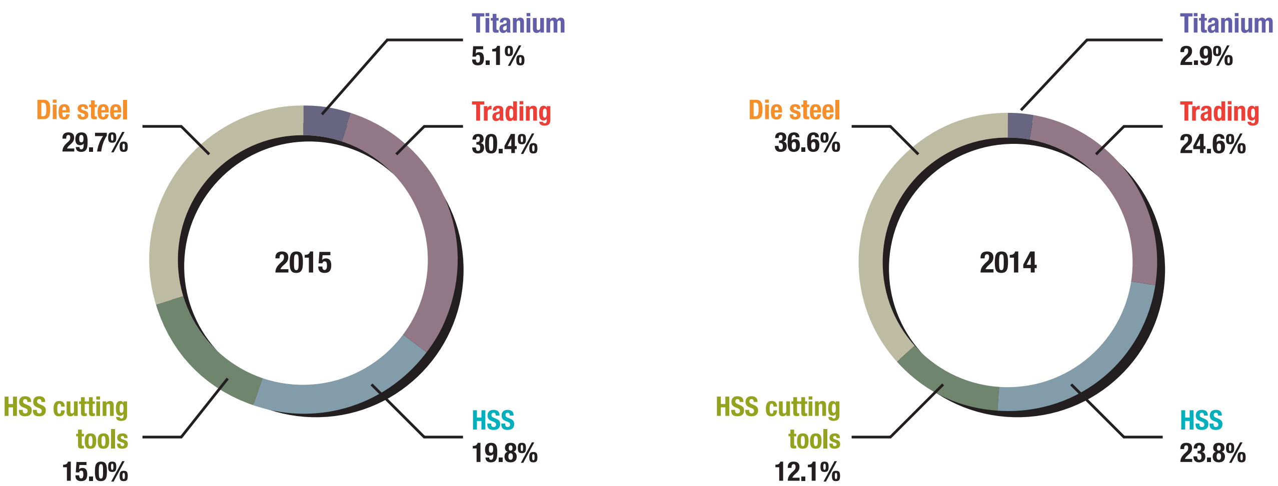

Financial Highlights

	2015	2014
Revenue (RMB'000)	3,429,397	4,535,670
Net profit for the year attributable to equity shareholders of the Company (RMB'000)	72,623	463,466
Basic Earnings per share (RMB)	0.033	0.230
Proposed final dividend per share (RMB)	0.0065	0.0418

Revenue
RMB' million



Revenue by Product Mix



Chairman's Statement

Leveraging on our dominating position in the market and our advantage in costing and product range, we will strive to maintain growth and maximize returns to the shareholders of the Company.

Zhu Xiaokun
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tiangong International Company Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present to you the annual results for the year ended 31 December 2015.

In 2015, faced with extremely severe environment of the global economic situation, based on the overall strategy of moving forward while maintaining steady and stabilizing quality and efficiency, we were committed to maintaining production scale to retain our operational competitiveness and profitability. Total revenue reached RMB3,429.4 million, compared to RMB4,535.7 million in previous year. Gross profit decreased by 56.9% year-on-year to RMB391.3 million (2014: RMB908.8 million). Net profit attributable to equity shareholders of the Company decreased year-on-year to RMB72.6 million (2014: RMB463.5 million).

Although various economic indicators declined, the Company made some achievements in other aspects, laying a foundation for robust growth in various economic indicators after improvement in economic environment. In market expansion, following setting up sales offices in the United States, South Korea, the Czech Republic, Italy, India, Singapore, and Taiwan, we formally established a joint venture in Istanbul, Turkey in 2015 to open up a channel for the Company to expand into the Asian and European markets. We will further plan to establish joint ventures in Canada, Mexico, Thailand and Vietnam to expand our sales base.

In addition, the shares of the Company's subsidiary Jiangsu Tiangong Technology Company Limited ("TG Tech") was officially quoted on the National Equities Exchange and Quotations System ("NEEQ System") in 2015. The main business of TG Tech includes production, processing, research and development and sales of titanium fabricated materials from the raw material of titanium sponge. The Group believes that after formal quotation on the NEEQ System, TG Tech will release its corporate value, provide financing platform for business development and make preparation for the expansion of its production capacity and downstream products extension.

Chairman's Statement

We will continue to develop in the high-tech materials industry. The Group believes that focusing on high-end products will distinguish the Group from other competitors to expand and stabilize gross profit and provide considerable return for shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our management and staff for their outstanding performance over the year, as their contribution was the key to the Group's success. I would also like to take this opportunity to cordially thank all shareholders, customers and business partners for their support and assistance.

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 30 March 2016

Management Discussion and Analysis

Management Discussion and Analysis

Business and Market Review

Revenue

	For the year ended 31 December					
	2015		2014		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel ("DS")	1,017,875	29.7	1,660,175	36.6	(642,300)	(38.7)
High Speed Steel ("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% 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.

Management Discussion and Analysis

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 RMB328,261,000 (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 the PRC market. Since all the production materials of HSS cutting tools were purchased locally in the 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%).

Management Discussion and Analysis

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 for 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.

Significant investments held

The Group had interests in certain associates in the PRC, Taiwan and the USA, which engaged in the logistic, sales and distribution of the Group's products. For further details, please refer to Note 17 to the financial statements. During the year, the Group's share of profits of associates was RMB5,857,000 while it had a share of losses of associates amounted to RMB2,702,000 in 2014. In addition, the Group formed various joint ventures in Korea, India, Singapore, the Czech Republic, Italy and Turkey. They were engaged in the sales and distribution of the Group's products. For further details, please refer to Note 18 to the financial statements. The Group's share of profits of joint ventures increased from RMB6,391,000 in 2014 to RMB6,820,000 in 2015. The increase in the share of profits of associates and joint ventures mainly because the Group lowered the selling price of its products to overseas sales offices in order to maintain and extend its overseas market volume in response to the decline of domestic market demand and the significant decrease in the average selling price in domestic market. Meanwhile, the average selling price in overseas market remained stable, which led to higher profit margin realised by overseas associates and joint ventures.

With the establishment of a joint venture in Turkey during the year, the Group opened up an extra channel and expected to steadily expand its sales network in the Asian and European markets. The Group expected to continue to share profits from such associates and joint ventures and planned to establish further footprints in Canada, Mexico, Thailand and Vietnam to expand our sales base.

Income tax

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.

Net profit for the year attributable to equity shareholders of the Company

As a result of the factors discussed above, the net profit for the year attributable to equity shareholders of the Company 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 segments were 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 the 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 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 report 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 of TG Tech. As of the date of this report, 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.

Management Discussion and Analysis

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 was 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 buildings and production lines of HSS and DS sheet and are expected to be financed by a combination of our internal cash resources, operating cash flows and bank borrowings.

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

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 were further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme.

Contingent Liabilities

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

Environment protection

The Group adhered to green and low-carbon development path. Following the investment in the sewage treatment system in 2009, the Group continued to increase its investment in and pay attention to environmental protection. In 2015, the Group completed the following projects in environmental protection:

1. In respect of the existing natural gas furnace, the Group modified and enhanced the energy saving effect of the furnace to achieve a reduction in natural gas consumption;

2. Enhancement was implemented to the original sewage treatment filtration systems to meet the standards of sewage treatment and fulfil the government regulatory environmental requirements; and

3. Conducting a comprehensive repair and maintenance to dust removal system of our manufacturing plant to ensure the normal emission level of dust removal equipment was achieved.

In compliance with laws and regulations

The Group has its main operations in China. As at 31 December 2015 and up to the date of this report, the Board was unaware of any non-compliance with the relevant laws and regulations that had a significant impact on the Group.

Relationships with key stakeholders

(i) Employees

The Group recognises human resources are an asset and are important to the Group's development and growth. Most of the Group's employees were working at the manufacturing plant in Zhenjiang City, the PRC. The Group provided employees with remuneration packages comparable to the market rates and employees were 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 provided compulsory continuous training for all of its staff on a regular basis.

(ii) Suppliers

The Group's suppliers mainly supplied us with raw materials and utilities in the PRC. The Group developed long-standing and good relationships with the suppliers. Our procurement department conducted regular meetings with the suppliers of raw material and utilities to ensure that raw materials supplied were in stable and good quality.

(iii) Customers

The Group established long-term cooperation relationships with major customers. The sales team in domestic and overseas sales offices visited and discussed with customers regularly so as to keep well-informed of the market information and changes.

Directors & Senior Management

Executive Directors

Mr. ZHU Xiaokun, aged 59, is an Executive Director and the Chairman of the Company. He is responsible for the overall business development strategy of the Group and has over 25 years of experience in HSS and cutting tools industry. Mr. Zhu graduated from the Economic and Management Department of Jiangsu Open University (formerly known as the Jiangsu Radio and TV University). In 1984, he joined Danyang Houxiang Television Antenna Factory (the predecessor of Jiangsu Tiangong Group Company Limited ("TG Group")) as the general manager. He led the factory to transform from a television antenna factory to an enterprise of HSS cutting tools in 1987 and also subsequently to expand to include the production of HSS in 1992, the production of DS in 2005 and the production of titanium products in 2012. He has been acting as the Chairman of the Group since July 1997. In 1998, he was awarded as a National Township Factory Manager, named as a National Township Entrepreneur in 2004 by Ministry of Agriculture, awarded as Model of Work Force in the Jiangsu Province in 2006, Model of the National Steel Industry Work Force in 2008, Top Ten Annual Jiangsu Businessman in 2010, "Most Benevolent Model" on Charitable Donations in Jiangsu Province in 2011, awarded National Labor Medal in 2012, continuously awarded of "Most Honored Business Leader of the Twelfth Five-year Plan in Jiangsu" in 2013 to 2015 and awarded of "National Model Worker" in 2015.

Mr. WU Suojun, aged 43, is an Executive Director of the Company and a deputy general manager of Jiangsu Tiangong Tools Company Limited ("TG Tools"), and a deputy general manager of Danyang Tianfa Forging Company Limited ("Tianfa Forging"). Mr. Wu joined the Group in 1993 as a workshop officer. He is in charge of the sales, production, operation management and purchase of HSS and DS. He is also responsible for the security and environmental works.

Mr. YAN Ronghua, aged 47, is an Executive Director of the Company. He graduated from the Economic and Management Department of the Jiangsu Open University (formerly known as the Jiangsu Radio and TV University). He joined the Group in 1994. He was appointed as the head of office administration and subsequently the assistant general manager, deputy general manager of the Group. Mr. Yan is currently in charge of external investment management, and monitoring and evaluation of the Group's accounting and warehousing function.

Mr. JIANG Guangqing, aged 51, is an Executive Director of the Company. He graduated from Aerospace Industry 061 Base Technical School (航天工業零六一基地技工學校), joined the Group in 1993 and currently is the special assistant of the general manager. He is in charge of the production, operation and management of HSS cutting tools.

Independent Non-Executive Directors

Mr. GAO Xiang, aged 72, joined the Company in 2007 as an Independent Non-Executive Director. In July 1966, he graduated from Wuhan Institute of Mechanics, majoring in production craftsmanship of machines and equipment. He is a senior engineer. Under his leadership, the study of twist drill extrusion technology by Chengdu Tools Research Institute was honoured with Third Class Award of Technical Findings of the Ministry of Mechanics. His achievements are widely recognized in the industry, and he has been granted special government subsidy by the State Council since 1999 as a result of such achievements.

Mr. LEE Cheuk Yin, Dannis, aged 45, joined the Company as an Independent Non-executive Director in 2010. He obtained the Bachelor of Business Administration from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He possesses over 20 years of experience in accounting and auditing field. Mr. Lee is an independent non-executive director of Geely Automobile Holdings Limited (HK Stock Code: 175). He was an executive director of Guojin Resources Holdings Limited (HK Stock Code: 630) (resigned in 2011), a non-executive director of Kam Hing International Holdings Limited (HK Stock Code: 2307) (resigned in 2011) and an independent non-executive director of U-Home Group Holdings Limited (HK Stock Code: 2327) (resigned in 2015).

Mr. YIN Shuming, aged 71, joined the Company as an Independent Non-executive Director in 2013. He graduated from Nanjing University and major in Chemistry. Mr. Yin had been the factory manager in a factory of liquor products in Guizhou province and served as party secretary to Yuping Dong Autonomous County of Guizhou Province and held other government positions in Guizhou province and Zhenjiang City. Mr. Yin is an independent non-executive director of Hengbao Co., Ltd. (stock code: 002104) (resigned in November 2014) and of Zhenjiang Dongfang Electric Heating Technology Co., Ltd (stock code: 300217) (resigned in November 2014).

Senior Management

Mr. SHI Guorui, aged 69, is the chief financial officer of the Group. He graduated from the Industrial Accounting Department of the Soochow University in 1986. He is an accountant. Prior to joining the Group in July 2004, he worked for Jiangsu Province Zhenjiang Casting Factory, Zhenjiang Radio Electronic Factory, Jiangsu Province Zhenjiang Electronics Tube Factory, Zhenjiang Electronics Industry Company Limited and Zhejiang Wireless Appliances and Materials Factory. He has extensive experience in finance and accounting.

Mr. ZHU Wanglong, aged 57, is an executive director and a deputy general manager of Tiangong Aihe Company Limited ("TG Aihe"). Prior to joining the Group, Mr. Zhu worked for Qianxiang Village and Danyang Machining Tools Factory. He joined the Group in July 1997 and has been in charge of product innovation, technology improvement, investment development and quality inspection. He has over 20 years of experience in the production management of tools, HSS and DS.

Mr. JIANG Rongjun, aged 47, is an executive director and the general manager of TG Tech. He joined the Group in 1985 as a workshop officer. Mr. Jiang is currently in charge of the production, sales and management of titanium alloy plant.

Mr. LEE Johnly, aged 36, is the financial controller and company secretary of the Company. Mr. Lee joined the Group in July 2015 and has over 14 years of experience in the field of finance, auditing, accounting and administration, including working in the assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Lee graduated with a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University. He is a member of The Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Group strives to attain and maintain high standards of corporate governance and to apply the principles set out in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as it believes that good corporate governance practices are fundamental to the Group's development and essential for safeguarding shareholders' interests. To achieve this objective, the Group strengthens its internal policies and procedures, provides continuous training to its staff and increases the transparency of its operation and accountability to all shareholders. The Group is committed to improving this practice and maintaining an ethical corporate culture. Save as disclosed below, during the year ended 31 December 2015, the Group has complied with the applicable principles and code provisions set out in the Code.

The Board

The Board's primary role is to secure and enhance long-term shareholder value. It focuses on the Group's overall strategic policy and provides proper supervision to ensure effective management and to achieve sound returns for its shareholders. The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group's business to the management. The Board is mainly responsible for developing long term objectives and strategy of the Group, monitoring operation performance and results, monitoring performance of the management, establishing dividend policy and reviewing significant investment plans and decisions. The Board meets at least four times a year and additional meetings are held when required to discuss significant events and issues.

The Board is responsible for determining the policy for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code.

The company secretary of the Company (the "Company Secretary") assists the Chairman in preparing the agenda for Board meetings and all Directors shall have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. All Directors can give notice to the Chairman of the Board or the Company Secretary if they intend to include matters in the agenda for Board meetings. Regular board meetings are held with at least 14 days' advance notice, and all Directors would be served with an agenda with supporting papers at least 3 days before the intended date of a Board meeting, so as to ensure that there is timely access to relevant information. The Group ensures that all the Board members are informed of the Group's latest development and thereby assists them in the discharge of their duties. Procedures have been agreed by the Board to enable the Directors to seek independent professional advice, at the Company's expense.

Number of Meetings and Directors' Attendance

Name of Director	Attendance/Number of Board Meetings Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Zhu Xiaokun	4/4	N/A	1/1	1/1
Mr. Wu Suojun	4/4	N/A	N/A	N/A
Mr. Jiang Guangqing	4/4	N/A	N/A	N/A
Mr. Yan Ronghua	4/4	N/A	N/A	N/A
Mr. Gao Xiang	4/4	2/2	1/1	1/1
Mr. Lee Cheuk Yin Dannis	4/4	2/2	1/1	1/1
Mr. Yin Shuming	4/4	1/2	1/1	1/1

General Meetings With Shareholders

The Company's annual general meeting provides a useful platform for direct communication between the Board and its shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

The annual general meeting ("AGM") was held on 20 May 2015. Mr. Zhu Xiaokun acted as the chairman of the AGM.

The attendance records of the Directors at the shareholders' meetings held in the year 2015 are set out below:

	AGM
Executive Directors	
Mr. Zhu Xiaokun	√
Mr. Wu Suojun	—
Mr. Jiang Guangqing	—
Mr. Yan Ronghau	—
Independent non-executive Directors	
Mr. Gao Xiang	—
Mr. Lee Cheuk Yin Dannis	√
Mr. Yin Shuming	—

In respect of the code provision A.6.7 of the Code which requires that independent non-executive directors and other non-executive directors should attend general meetings, Mr. Gao Xiang and Mr. Yin Shuming, two of the Independent Non-executive Director, were unable to attend the AGM due to health reasons.

Minutes of the Board and Board Committees which record in sufficient detail the matters considered by the Board and the Board Committees and their decisions reached, including any concerns raised by Directors or dissenting views expressed are taken by the Company Secretary. Such minutes of the Board and Board Committees, together with supporting papers, are open for inspection following reasonable notice by any Director. Draft and final versions of minutes were sent to all Directors for their comment and records within a reasonable time after the relevant meeting was held. The Company has arranged appropriate insurance cover on Directors' liabilities in respect of legal actions against them arising from corporate activities.

Composition of the Board

The Board comprises four Executive Directors (Mr. Zhu Xiaokun, Mr. Wu Suojun, Mr. Yan Ronghua and Mr. Jiang Guangqing), and three Independent Non-Executive Directors (Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Yin Shuming). Biographical details of the Directors as at the date of this report are set out on pages 14 to 15 of this annual report.

Independent Non-Executive Directors account for more than one-third of the members of the Board. The Independent Non-Executive Directors come either from the steel industry or have related professional background, bringing valuable expertise and experience that promotes the best interests of the Company and its shareholders. The role of the Independent Non-Executive Directors is to provide independent and objective opinions to the Board for its consideration, take the lead where potential conflicts of interests arise, serve on the audit, remuneration and nomination committees and scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. The Company has received an annual confirmation of independence from each of the Independent Non-Executive Directors. The Company is of the view that all the Independent Non-Executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and considers each of them to be independent.

The Company had adopted a Board diversity policy aiming to set out the approach to achieve the diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members.

The Nomination Committee will follow a range of diversified perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be made upon the possible contribution that the selected candidates will bring to the Board.

The Nomination Committee considered that the current composition of the Board is balanced in terms of diversity and is able to meet the objectives of the Board. The Board's diversity provides the Company with experienced individuals and professionals with proven and extensive industry experience whose opinions and expertise are useful for the decision-making of the Board and the implementation of its business directives.

Directors and Company Secretary's Continuous Training and Development

Directors also participate in continuous professional development to develop and refresh their knowledge and skills. The Company has from time to time provided information and updates to the Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements so as to ensure the Directors are in compliance with good corporate governance practices.

During the year, all Directors have been provided and read seminar materials covering topics including the Code, the disclosure of inside information and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements. Each of the Directors has provided to the Company his records of training received during the financial year ended 31 December 2015 to the Company.

For the financial year ended 31 December 2015, the Company Secretary has taken no less than 15 hours of relevant professional training.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Zhu Xiaokun, and the chief executive officer is Mr. Wu Suojun. The Chairman's and the chief executive officer's roles and responsibilities are clearly defined to ensure their independence and a balance of power and authority. The Chairman of the Board provides leadership for the Board and he is responsible for the overall management of the Board and monitoring the Group's business strategies, while the chief executive officer is responsible for the Group's day-to-day management in accordance with the instructions issued by the Board and operating the business of the Group and implementing policies and strategies adopted by the Board.

In 2015, the Chairman has held a meeting with the Independent Non-Executive Directors without the Executive Directors being present.

Appointment, Re-election and Removal of Directors

While there was no appointment of new Director this year, a person may be appointed as a member of the Board at any time either by shareholders' resolutions in general meetings or by resolutions of the Board upon recommendation by the Nominations Committee of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first general meeting immediately following their appointments.

All Directors are required to retire by rotation at least once every three years at the annual general meeting, subject to re-election by the shareholders. All Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than three years.

Board Committees

The Board has established three Board Committees to oversee different aspects of the Company's affairs. These Board Committees include the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board Committees have been structured to include a majority of Independent Non-Executive Directors as members in order to ensure that all relevant issues are reviewed independently and objectively. These Board Committees will report back to the Board on their decisions or recommendations. The terms of reference of the respective Board Committees have complied with the Code provisions and are available on the Company's website http://www.tggj.cn and the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") http://www.hkexnews.hk.

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Lee Cheuk Yin, Dannis, Mr. Gao Xiang and Mr. Yin Shuming. The Chairman of the Audit Committee, Mr. Lee Cheuk Yin, Dannis, possesses expertise in accounting, auditing and finance.

Under its terms of reference, the Audit Committee is mainly responsible for overseeing the Company's financial reporting system and internal procedures, reviewing the financial information of the Company and overseeing the relationship with external auditors. These include reviewing and recommending for the Board's approval the interim and the annual financial statements; reviewing the external auditors' independence, objectivity and the effectiveness of the audit process; and reviewing and recommending to the Board for approval of the external auditor's remuneration; reviewing and obtaining explanation from management and the external auditor on the results for the year, including causes of changes from the previous period, effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board; considered and proposed to the Board the re- appointment of the Company's external auditors; considered and approved the procedures and guidelines in employing the external auditor to perform non-audit assignments for the Company; received and reviewed the internal audit reports from the internal auditor; held meetings with the external auditors in the absence of management to discuss any audit issues; held meetings with the internal auditor in private to discuss internal audit issues; approved the internal audit program for the year; carried out a review of the internal control and risk management systems of the Company during the year including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget and review of the effectiveness of the internal control and risk management systems of the Group. The Audit Committee has been provided with sufficient resources to discharge its duties.

The Audit Committee had 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.

Audit Committee held two meetings in 2015 and one meeting to date in 2016.

The meetings were held together with the external auditors of the Company, the Chief Financial Officer, and the Financial Controller of the Company, to discuss auditing, risk management, internal control and financial reporting matters which include the review of the interim and annual financial statements. Full minutes of the Audit Committee meetings were kept by the Company Secretary. Draft and final versions of such minutes were sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. No former partner of KPMG, the existing auditing firm of the Company, was acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing to be a partner of the firm; or to have any financial interest in the firm.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, namely, Mr. Zhu Xiaokun, and three Independent Non-Executive Directors, namely, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Yin Shuming. Mr. Yin Shuming is the Chairman of the Remuneration Committee.

The primary role of the Remuneration Committee is to make recommendation to the Board on the Company's policy and structure for remuneration of Directors and senior management and to ensure that their compensation arrangements are determined in accordance with relevant contractual terms. No Director and any of his associates has taken part in any discussion on his own remuneration. Details of the fees of the Directors are set out in note 10 to the financial statements. The Company's remuneration policy is to maintain fair and competitive remuneration packages based on business needs and market practice. Factors such as market rate, an individual's qualification, experience, performance and expected workload are taken into account during the remuneration package determination process. The Remuneration Committee has consulted the Chairman of the Board, Mr. Zhu Xiaokun or the chief executive officer, Mr. Wu Suojun, about their proposals relating to the remuneration of other Executive Directors and have access to professional advice if considered necessary. The Remuneration Committee was provided with sufficient resources to discharge its duties.

Remuneration Committee held one meeting in 2015 and one meeting to date in 2016.

The meetings were held to assess the performance of the Directors and senior management, approve the terms of executive Director's service contracts, discuss and review the overall remuneration policy and structure. Recommendations have been made to the Board on the remuneration packages of individual executive Directors and senior management.

For the year ended 31 December 2015, the remuneration of the senior management is listed as below by band:

Band of remuneration	No. of persons
RMB0 to RMB1,000,000	4

Further details of the remuneration of Directors and 5 highest paid employees have been set out in note 10 and 11 to the financial statement.

Nomination Committee

The Nomination Committee comprises one Executive Director, namely, Mr. Zhu Xiaokun, and three Independent Non-Executive Directors, namely, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Yin Shuming. Mr. Gao Xiang is the Chairman of the Nomination Committee.

The primary responsibility of the Nomination Committee is to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, and assessing the independence of the Independent Non-Executive Directors. The Nomination Committee has been provided with sufficient resources to discharge its duties.

The Nomination Committee has adopted the terms of reference as outlined under the Code provisions regarding the selection, recommendation and nomination of candidates for directorship during the year. The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee held one meeting in 2015 and one meeting to date in 2016. The meetings were held to discuss and review the composition and structure of the Board and senior management and the re-appointment arrangement of the Directors in the Company's forthcoming annual general meeting. The Executive Directors were appointed based on their qualification and experience in relation to the Group's business. The Independent Non-Executive Directors were appointed based on their professional qualifications and experience in their respective areas.

Directors' Responsibility for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements on a going concern basis, with supporting assumptions or qualifications as necessary, for each financial period with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that financial year. Management of the Company has provided such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Company's accounts are prepared in accordance with the Listing Rules, the Companies Ordinance, all relevant statutory requirements and applicable accounting standards. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

The Directors endeavor to ensure a balanced, clear and understandable assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory requirements.

Internal Control and Risk Management

Sound internal control and risk management systems enhance the effectiveness and efficiency of operations, ensures compliance with laws and regulations and mitigates the Group's business risk. The Board is responsible for the internal control and risk management systems of the Group and reviewing their effectiveness and adequacy.

The Board and the Group's management hold meetings on a regular basis to review and evaluate the Group's business operations, production processes and financial reporting processes, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, their training programmes and budget in order to achieve reasonable assurance of the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

To maintain effective internal control and risk management systems that helps the Group to achieve its business objectives and safeguard its assets, the Group has implemented measures including: (i) establishing written policies and work flow for major operations and production cycles; (ii) having in place appropriate segregation of duties; and (iii) setting proper authorisation levels.

The Board, through the Audit Committee, have conducted a review covering all material controls, including financial, operational and compliance controls and risk management functions of the Group for the year ended 31 December 2015 and considered that an effective and adequate internal control and risk management systems of the Group had been in place and had been functioning effectively.

External Auditors

KPMG was re-appointed as the external auditors of the Company by the shareholders at the AGM until the next annual general meeting. In order to maintain their independence, objectivity and effectiveness in performing the audit services, the Audit Committee pre-approved all audit services and discussed with KPMG the nature and scope of the audit services. KPMG is primarily responsible for providing audit services in connection with the annual consolidated financial statements.

During the year ended 31 December 2015, the total remuneration paid or payable to KPMG in respect of audit services was RMB3,050,000.

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.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the Code:

Convening of extraordinary general meeting on requisition or putting forward proposals at general meetings by shareholders

In accordance with the section 79 of the Company's articles of association, general meetings may be convened on the written requisition of any two or more members of the Company deposited at the registered office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the registered office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders may also make use of the above mechanism in putting forward proposals at general meeting. In order to allow shareholders to make an informed decision at the relevant general meeting, requisitionists are requested to provide contact details to the Board at the time of deposition of the requisition in case further information is required to be included in the notice of meeting.

Shareholders should note that the Company is required to give notice of extraordinary meeting of not less than 10 business days (pursuant to Listing Rules requirements) and not less than 14 clear days (pursuant to the articles of association of the Company).

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board of the Company in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Tiangong International Company Limited
Unit 1303, 13/F Jubilee Center
18 Fenwick Street, Wanchai, Hong Kong
Email: tiangong@biznetvigator.com
Tel No.: (852) 3102-2386
Fax No.: (852) 3102-2331

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions.

Investor Relationship and Communication

The Board and senior management recognize the importance of communication with shareholders and accountability to shareholders. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meetings provide a forum for shareholders to make comments and raise concerns to the Board directly. The Group's senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Group has set up its own website http://www.tggj.cn, which is updated on a regular basis, as a means to provide updated information on the Company to investors. Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which at least 20 clear business days' notice is given. At the meeting, the Chairman of the Board, the chairman of the Board Committees (or their respective committee members) and the Directors are available to answer questions on the Group's business. There is no change in the Company constitutional documents during the year.

Report of the Directors

The Directors are pleased to submit the annual report together with the audited financial statements for the year ended 31 December 2015.

Principal Place of Business

The Company is a company incorporated and domiciled in Cayman Islands and has its principal place of business at Danbei Town, Danyang City, Jiangsu Province, the PRC.

Principal Activities

The principal activities of the Company are the production and sales of HSS, HSS cutting tools, DS and titanium alloy. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

Financial Statements

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on page 35 and 36.

The financial position of the Group as at 31 December 2015 is set out in the consolidated statement of financial position of the Group on pages 37 to 38. The financial position of the Company as at 31 December 2015 is set out in note 34 to the financial statement on page 100.

The cash flows of the Group for the year ended 31 December 2015 are set out in the consolidated cash flow statement on page 40.

Results and Appropriations

The Board proposed a final dividend payment of RMB0.0065 per share for the financial year ended 31 December 2015 (2014: RMB0.0418).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB100,000 (2014: RMB1,075,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated statements of changes in equity, respectively.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2015, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,331,935,000 (2014: RMB1,426,911,000).

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 30 to the financial statements.

Business Review

A review of the business of the Group during the year and a discussion on the Group's future business development are provided on management discussion and analysis and the Chairman's statement of this annual report. Descriptions of possible risks and uncertainties that the Group may be facing and an analysis of the Group's performance during the year using financial key performance indicators is provided on page 6 to 12 of this annual report. Particulars of important events affecting the Group that have occurred since the end of the financial year are provided on notes 37 to the financial statements.

In addition, further information of the Company's environmental protection policies can be found on page 13 of the management discussion and analysis of this annual report. Our Company' compliance with relevant laws and regulations which have a significant impact on the Group are provided in the section heading "In compliance with laws and regulations" on page 13 of the management discussion and analysis of this annual report. An account of the Company's relationships with its key stakeholders are disclosed in the section heading "Relationships with key stakeholders" on page 13 of the management discussion and analysis of this annual report.

Directors

The Directors during the financial year were:

Executive Directors

Mr. Zhu Xiaokun
Mr. Wu Suojun
Mr. Yan Ronghua
Mr. Jiang Guangqing

Independent Non-Executive Directors

Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Yin Shuming

Directors will retire by rotation in accordance with the requirement of the Listing Rules and the articles of association of the Company in the annual general meetings.

The Independent Non-Executive Directors are appointed for periods of one year. The Company considers that Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Yin Shuming are independent pursuant to the criteria set out in the Listing Rules and that a confirmation of independence has been received from each of them.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2015, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code (set out in Appendix 10 of the Listing Rules) were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Zhu Xiaokun (1 and 2)	Corporate interests	769,556,000(L)	34.66
	Corporate interests	50,000,000(S)	2.25
	Beneficial owner(3)	900,000(L)	0.04
			36.95
Wu Suojun	Beneficial owner(3)	1,267,000(L)	0.06
Yan Ronghua	Beneficial owner(3)	620,000(L)	0.03
Jiang Guangqing	Beneficial owner(3)	700,000(L)	0.03

Notes:

As at 31 December 2015,

(1) Tiangong Holdings Company Limited ("THCL") held 775,624,000 Ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 775,624,000 Shares held by THCL.

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 43,932,000 Ordinary shares.

(3) Options granted under Share Option Scheme of the Company.

(L) Represents long position.

(S) Represents short position.

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Zhu Xiaokun	THCL	Beneficial owner	44,511(L)	89.02
Yu Yumei	THCL	Beneficial owner	5,489(L)	10.98

(L) Represents long position.

Save as disclosed above, as at the end of the reporting period, as far as the Directors are aware, none of the Directors and chief executive had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Substantial Shareholders' Interests

As at 31 December 2015, save for the Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

Substantial shareholders' name	Ordinary shares	Approximate attributable interest (%)
Yu Yumei (Note 1)	770,456,000(L)	34.70
	50,000,000(S)	2.25
THCL (Note 1)	725,624,000(L)	32.68
	50,000,000(S)	2.25
Delta Lloyd Asset Management NV (Note 2)	130,125,800(L)	5.86

(L) Represents long position.

(S) Reports short position.

Notes:

(1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Madam Yu Yumei.

(2) Delta Lloyd Asset Management NV reported that it is deemed to be interested in the shares of the Company as investment manager and by virtue of its interest in Delta Lloyd Azië Deelnemingen Fonds N.V., a corporation 85.00% controlled by it.

Arrangements to Acquire Shares or Debentures

Save as disclosed in this report (note Share Option Scheme below), at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and the senior management are set out on pages 14 to 15.

Share Option Scheme

The Company has a share option scheme (the "Scheme") which was adopted on 7 July 2007. The purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole. The scheme will provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants. The major terms of the Scheme are as follows:

1. The Directors may, at their discretion, invite any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group and any advisers, consultants, distributors, contractors, contract manufacturers, suppliers, agents, customers, business partners, joint venture business partners, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group (the "Participants") to participate in the Scheme.

2. The maximum number of shares over which options may be granted under the Scheme must not exceed 80,000,000 shares of nominal value USD0.0025 each in the capital of the Company, representing approximately 3.6% of the issued share capital of the Company as at the date of this report.

3. The total number of shares of the Company issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) under the Scheme in any 12 month period must not exceed 1% of the shares in issue. Any further grant of options which would result in the number of shares issued as aforesaid exceeding the said 1% limit must be subject to prior shareholders' approval with the relevant Participant and his associates abstaining from voting.

4. The period within which the options must be exercised will be specified by the Company at the time of grant.

   This period must expire no later than 10 years from the relevant date of grant (being the date on which the Board resolves to make an offer of option to the relevant grantee).

5. At the time of grant of the options, the Company may specify any minimum period(s) for which an option must be held before it can be exercised. The Scheme does not contain any such minimum period.

6. The amount payable on acceptance of an option is HKD1.00.

7. The subscription price for the shares, the subject of the options, shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant. The subscription price will be established by the Board at the time the option is offered to the Participants.

8. The Scheme shall be valid and effective till 6 July 2017.

On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the Directors and employees of the Company in respect of their services to the Group. These share options were 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 9,057,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. 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.

At 31 December 2015, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2015 was HKD0.66) under the Scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of USD0.0025 each of the Company.

	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of shares cancelled/ lapsed/ forfeited during the year	No. of options outstanding at the end of the year	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*	Market value per share on exercise of options*
Directors										
Mr. Zhu Xiaokun	400,000	–	–	–	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	500,000	–	–	–	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Wu Suojun	400,000	–	–	–	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	867,000	–	–	–	867,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Yan Ronghua	320,000	–	–	–	320,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Jiang Guangqing	400,000	–	–	–	400,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Employees	1,560,000	–	–	–	1,560,000	28 January 2011	01 July 2012 to 30 June 2016	HKD1.275	HKD1.275	–
Employees	9,057,000	–	–	–	9,057,000	17 January 2014	01 June 2014 to 31 May 2016	HKD2.50	HKD2.48	–
Employees	20,180,000	–	–	–	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	34,284,000	–	–	–	34,284,000					

The options granted to the Directors are registered under the names of the Directors who are also the beneficial owners.

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 3(m)(ii) and note 28 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding company or subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' and Controlling Shareholders' Interests in Contracts

Save as disclosed under the heading "Continuing connected transactions" below and "Material related party transactions" in note 33 to the financial statements, there is no contract of significance to the business of the Group between the Company, or any of its subsidiary companies, or a controlling shareholder or any of its subsidiaries during the year. During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries was made. There is no transaction, arrangement or contract of significance to the Group subsisting during or at the end of the year in which any Director or any entity connected with a Director is or was materially interested, either directly or indirectly.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Purchase, Sales or Redemption of Shares

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

Issue of Shares or Debentures

Save as disclosed in this annual report, during the year ended 31 December 2015, neither the Company nor any of its subsidiaries has issued any shares or debentures.

Corporate Governance

Save for code provision A.6.7 of the Code, the Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Code and Corporate Governance Report.

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors. 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.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the financial year ended 31 December 2015 is as follows:

	Percentage of the Sales	Group's total Purchases
The largest customer/supplier	28%	9%
Five largest customers/suppliers in aggregate	41%	20%

At no time during the year had the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Continuing Connected Transactions

The related party transactions on leases as disclosed in note 33 to the financial statements also constituted continuing connected transactions under the Listing Rules.

The continuing connected transactions of the Group on leases from controlling shareholders fall under the de minimis provision set forth in Rule 14A.76(1) of the Listing Rules and are therefore exempt from reporting, announcement and independent shareholders' approval.

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that they have been entered into in the ordinary and usual course of business of the Group on normal commercial terms and according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pledge of Assets

As at 31 December 2015, the Group pledged certain bank deposits amounting to approximately RMB445,389,000 (31 December 2014: RMB404,400,000). The Group also pledged certain trade receivables amounting to approximately RMB91,509,077 (31 December 2014: RMB285,273,000).

Financial Information Summary

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 103. This summary does not form part of the audited financial statements.

Directors' Interests in Competing Business

During the year and up to the date of this annual report, none of the Directors are considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules.

Management Contracts

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There has been no change in the Company's auditors in any of the preceding three years.

By order of the Board

Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 30 March 2016

Independent Auditor's Report

Independent auditor's report to the shareholders of
Tiangong International Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tiangong International Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 35 to 102, which comprise the consolidated statements of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2016

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
Director

Yan Rong Hua
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.

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 ("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.

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) 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.

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.

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	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	1,111,431	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%).

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(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

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 RMB'000	2014 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.

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 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.

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.

(Expressed in Renminbi unless otherwise indicated)

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

(Expressed in Renminbi unless otherwise indicated)

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:

					Proportion of ownership interest			
Name of associate		Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital and securities	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 **RMB'000**	2014 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 **RMB'000**	2014 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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(Expressed in Renminbi unless otherwise indicated)

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.

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(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 RMB'000	2014 RMB'000
Cash at bank and on hand	323,486	181,373

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

	note	2015 RMB'000	2014 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).

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:

	note	2015 Weighted average exercise price	2015 Number of options	2014 Weighted average exercise price	2014 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

(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

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

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.

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.

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

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 RMB'000	**EUR RMB'000**	**HKD RMB'000**	USD RMB'000	EUR RMB'000	HKD 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.

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 RMB'000	2014 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 RMB'000	2014 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.

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 RMB'000	2014 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.

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.

(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.

Financial Information Summary

	Year ended 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Revenue	3,429,397	4,535,670	3,396,670	3,118,251	3,111,763
Profit before taxation	85,205	544,168	608,719	536,900	435,132
Income tax	(13,074)	(81,421)	(138,617)	(92,008)	(69,805)
Profit for the year	72,131	462,747	470,102	444,892	365,327
Other comprehensive (loss)/ income for the year	(27,787)	(1,404)	(2,030)	677	(3,715)
Attributable to:					
Equity shareholders of the Company	44,836	462,062	467,697	445,569	361,612
Non-controlling interests	(492)	(719)	375	—	—
Earnings per share (RMB)					
Basic (RMB)	0.033	0.230	0.242	0.244	0.218

	As at 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Assets					
Non-current assets	3,432,974	3,168,657	2,635,765	2,309,276	1,953,693
Current assets	4,950,998	5,196,180	4,524,539	3,791,579	3,176,201
Total assets	8,383,972	8,364,837	7,160,304	6,100,855	5,129,894
Liabilities					
Non-current liabilities	578,292	689,801	405,589	235,225	454,912
Current liabilities	3,929,393	3,745,215	3,576,244	3,078,347	2,535,665
Total liabilities	4,507,685	4,435,016	3,981,833	3,313,572	2,990,577
Equity					
Total equity	3,876,287	3,929,821	3,178,471	2,787,283	2,139,317

Note:

The results of the Group for the four financial years ended 31 December 2011, 2012, 2013 and 2014 and its assets and liabilities were extracted from previous annual reports, which also set forth the details of the basis of presentation of the combined accounts.

Corporate Information

Registered Name
Tiangong International Company Limited

Chinese Name
天工國際有限公司

Stock Code
Hong Kong Stock Exchange: 826

Board of Directors
Executive Directors
Mr. Zhu Xiaokun *(Chairman)*
Mr. Wu Suojun *(Chief Executive Officer)*
Mr. Yan Ronghua
Mr. Jiang Guangqing

Independent Non-executive Directors
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Yin Shuming

Company Secretary
Mr. Lee Johnly

Authorized Representatives
Mr. Lee Cheuk Yin, Dannis
Mr. Lee Johnly

Audit Committee
Mr. Lee Cheuk Yin, Dannis *(Chairman)*
Mr. Gao Xiang
Mr. Yin Shuming

Remuneration Committee
Mr. Yin Shuming *(Chairman)*
Mr. Zhu Xiaokun
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis

Nomination Committee
Mr. Gao Xiang *(Chairman)*
Mr. Zhu Xiaokun
Mr. Yin Shuming
Mr. Lee Cheuk Yin, Dannis

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
Danyang City
Jiangsu Province
The PRC

Auditors
KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

Hong Kong Legal Adviser
Reed Smith Richards Butler
20th Floor, Alexandra House
18 Chater Road
Central Hong Kong

Principal Share Registrar and Transfer Office
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited