Tiangong International Company Limited
天 工 國 際 有 限 公 司 *

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Year ended 31 December 2017	Year ended 31 December 2016	Change
Revenue	**3,898.4**	3,376.1	15.5%
Gross profit	**498.5**	372.2	33.9%
Net profit attributable to equity shareholders of the Company	**169.1**	110.6	52.9%
Basic earnings per share *(RMB)*	**0.076**	0.050	52.0%
Gross profit margin	**12.8%**	11.0%	1.8 ppt
Margin of profit attributable to equity shareholders of the Company	**4.3%**	3.3%	1.0 ppt
Net Assets	**4,303.0**	4,155.4	3.6%
Net Debt (1)	**2,032.1**	1,809.2	12.3%
Net Gearing (2)	**47.2%**	43.5%	3.7 ppt

Notes:

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

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

The board of directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 and the consolidated statement of financial position of the Group as at 31 December 2017, together with the comparative figures for the same period of 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Note	**2017** **RMB'000**	2016 *RMB'000*
Revenue	*4*	**3,898,443**	3,376,134
Cost of sales		**(3,399,980)**	(3,003,942)
Gross profit		**498,463**	372,192
Other income	*5*	**64,614**	76,299
Distribution expenses		**(85,800)**	(66,264)
Administrative expenses		**(140,357)**	(142,918)
Other operating expenses	*6*	**(2,210)**	(12,294)
Profit from operations		**334,710**	227,015
Finance income		**5,795**	9,398
Finance expenses		**(118,205)**	(112,697)
Net finance costs	*7(a)*	**(112,410)**	(103,299)
Share of (losses)/profits of associates		**(4,805)**	7,751
Share of profits/(losses) of joint ventures		**602**	(551)
Profit before taxation	*7*	**218,097**	130,916
Income tax	*8*	**(43,396)**	(14,920)
Profit for the year		**174,701**	115,996
Attributable to:			
Equity shareholders of the Company		**169,099**	110,571
Non-controlling interests		**5,602**	5,425
Profit for the year		**174,701**	115,996
Earnings per share *(RMB)*	*9*		
Basic		**0.076**	0.050
Diluted		**0.076**	0.050

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**174,701**	115,996
Other comprehensive income for the year (after tax and reclassification adjustment)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of Hong Kong subsidiaries and overseas equity-accounted investees (net of nil tax)	**4,825**	(27,642)
Available-for-sale securities:		
net movement in the fair value reserve (net of tax of RMB3,420,000 (2016: RMB(12,945,000)))	**(19,380)**	73,355
Other comprehensive income for the year	**(14,555)**	45,713
Total comprehensive income for the year	**160,146**	161,709
Attributable to:		
Equity shareholders of the Company	**154,544**	156,284
Non-controlling interests	**5,602**	5,425
Total comprehensive income for the year	**160,146**	161,709

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		**3,520,344**	3,444,164
Lease prepayments		**70,875**	72,624
Goodwill		**21,959**	21,959
Interest in associates		**49,372**	46,484
Interest in joint ventures		**26,263**	25,343
Other financial assets		**88,900**	96,300
Deferred tax assets		**23,954**	30,146
		3,801,667	3,737,020
Current assets			
Inventories		**1,896,864**	1,901,775
Trade and other receivables	*10*	**2,044,171**	1,577,383
Pledged deposits		**241,380**	180,180
Time deposits		**500,000**	640,000
Cash and cash equivalents		**219,798**	259,546
		4,902,213	4,558,884
Current liabilities			
Interest-bearing borrowings		**2,170,279**	2,678,912
Trade and other payables	*11*	**1,302,982**	1,145,129
Current taxation		**4,164**	1,560
Deferred income		**5,499**	5,840
		3,482,924	3,831,441
Net current assets		**1,419,289**	727,443
Total assets less current liabilities		**5,220,956**	4,464,463

	2017	2016
	RMB'000	*RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**823,013**	210,000
Deferred income	**37,777**	43,876
Deferred tax liabilities	**57,201**	55,153
	917,991	309,029
Net assets	**4,302,965**	4,155,434
Capital and reserves		
Share capital	**40,477**	40,167
Reserves	**4,119,167**	3,977,548
Total equity attributable to equity shareholders of the Company	**4,159,644**	4,017,715
Non-controlling interests	**143,321**	137,719
Total equity	**4,302,965**	4,155,434

NOTES

1 REPORTING ENTITY

The Company was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The consolidated financial statements of the Company as at and for the year ended 31 December 2017 comprise the Group and the Group's interests in associates and joint ventures. The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

2 BASIS OF PREPARATION

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 31 December 2017 but are extracted from those financial statements.

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

The figures in respect of this announcement of the Group's results for the year ended 31 December 2017 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in respect of this announcement was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditor on this announcement.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been applied to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

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

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

– *DS*	The DS segment manufactures and sells materials that are used in the die set manufacturing industry.
– *HSS*	The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.
– *Cutting tools*	The cutting tools segment manufactures and sells HSS and carbide cutting tools to the tooling industry.
– *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloys to the titanium industry.
– *Trading of goods*	The trading of goods segment sells general carbon steel products that are not within the Group's production scope.

(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 basis:

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.

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Year ended and as at 31 December 2017					
	DS	**HSS**	**Cutting tools**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**1,686,470**	**654,440**	**530,212**	**168,164**	**859,157**	**3,898,443**
Inter-segment revenue	**–**	**109,355**	**–**	**–**	**–**	**109,355**
Reportable segment revenue	**1,686,470**	**763,795**	**530,212**	**168,164**	**859,157**	**4,007,798**
Reportable segment profit (adjusted EBIT)	**216,646**	**112,469**	**58,584**	**23,623**	**1,824**	**413,146**
Reportable segment assets	**3,234,273**	**2,302,430**	**1,404,979**	**543,472**	**10**	**7,485,164**
Reportable segment liabilities	**786,721**	**308,703**	**176,268**	**52,702**	**–**	**1,324,394**

	Year ended and as at 31 December 2016					
	DS	HSS	Cutting tools	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,262,376	395,239	527,821	234,295	956,403	3,376,134
Inter-segment revenue	–	341,150	–	–	–	341,150
Reportable segment revenue	1,262,376	736,389	527,821	234,295	956,403	3,717,284
Reportable segment profit (adjusted EBIT)	156,592	64,934	49,567	32,965	1,870	305,928
Reportable segment assets	3,040,930	2,136,121	1,328,101	436,820	11	6,941,983
Reportable segment liabilities	591,689	342,342	178,869	45,026	–	1,157,926

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**4,007,798**	3,717,284
Elimination of inter-segment revenue	**(109,355)**	(341,150)
Consolidated revenue	**3,898,443**	3,376,134

	2017	2016
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**413,146**	305,928
Net finance costs	**(112,410)**	(103,299)
Share of (losses)/profits of associates	**(4,805)**	7,751
Share of profits/(losses) of joint ventures	**602**	(551)
Unallocated head office and corporate expenses	**(78,436)**	(78,913)
Consolidated profit before taxation	**218,097**	130,916

	2017	2016
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**7,485,164**	6,941,983
Interest in associates	**49,372**	46,484
Interest in joint ventures	**26,263**	25,343
Other financial assets	**88,900**	96,300
Deferred tax assets	**23,954**	30,146
Pledged deposits	**241,380**	180,180
Time deposits	**500,000**	640,000
Cash and cash equivalents	**219,798**	259,546
Unallocated head office and corporate assets	**69,049**	75,922
Consolidated total assets	**8,703,880**	8,295,904

	2017	2016
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,324,394**	1,157,926
Interest-bearing borrowings	**2,993,292**	2,888,912
Current taxation	**4,164**	1,560
Deferred tax liabilities	**57,201**	55,153
Unallocated head office and corporate liabilities	**21,864**	36,919
Consolidated total liabilities	**4,400,915**	4,140,470

(c) Geographical information

The Group's business is managed on a worldwide basis, but participates in four principal economic environments, the People's Republic of China (the "PRC"), North America, Europe and Asia (other than the PRC).

In presenting geographical information, segment revenue is based on the geographical location of customers. Substantially all of the Group's assets and liabilities are located in the PRC and accordingly, no geographical analysis of segment assets, liabilities and capital expenditure is provided.

	2017	2016
	RMB'000	*RMB'000*
Revenue		
The PRC	**2,571,367**	2,293,882
North America	**404,171**	385,198
Europe	**672,417**	471,536
Asia (other than the PRC)	**226,063**	182,559
Others	**24,425**	42,959
Total	**3,898,443**	3,376,134

For the year ended 31 December 2017, the Group's customer base is diversified and includes one customer (2016: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from trading of goods to this customer in 2017 amounted to approximately RMB841,500,000 (2016: RMB889,279,000) and arose in the PRC region.

5 OTHER INCOME

	Note	2017 RMB'000	2016 RMB'000
Government grants	(i)	**53,815**	36,013
Net foreign exchange gain		**6,395**	–
Dividend income from listed securities	(ii)	**1,780**	–
Disposal gain from trading securities		**545**	–
Net gain on disposal of property, plant and equipment		**496**	–
Reversal of impairment loss on trade receivables (net)		**–**	39,308
Others		**1,583**	978
		64,614	76,299

(i) The subsidiaries of the Group, including Jiangsu Tiangong Tools Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe") and Jiangsu Tiangong Technology Company Limited ("TG Tech"), located in the PRC, collectively received unconditional grants amounting to RMB47,375,000 (2016: RMB30,399,000) from the local government to reward their contribution to the local economy and encourage technology innovation. TG Tools and TG Tech also recognised amortisation of government grants related to assets of RMB6,440,000 (2016: RMB5,614,000) during the year ended 31 December 2017.

(ii) The Group received dividends totalling RMB1,780,000 (2016: Nil) from a listed equity investment.

6 OTHER OPERATING EXPENSES

	2017 RMB'000	2016 RMB'000
Impairment loss on trade receivables (net)	**1,049**	–
Net loss on disposal of property, plant and equipment	**–**	675
Net foreign exchange loss	**–**	11,619
Others	**1,161**	–
	2,210	12,294

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2017	2016
	RMB'000	*RMB'000*
Interest income	**(5,795)**	(9,398)
Finance income	**(5,795)**	(9,398)
Interest on bank loans	**145,860**	133,395
Less: interest expense capitalised into property, plant and equipment under construction*	**(27,655)**	(20,698)
Finance expenses	**118,205**	112,697
Net finance costs	**112,410**	103,299

* *The borrowing costs have been capitalised at a rate of 5.02% per annum (2016: 4.80%).*

(b) Staff costs

	2017	2016
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**213,726**	212,158
Contributions to defined contribution retirement plans	**29,893**	21,207
Equity-settled share-based payment expenses	**–**	2,253
	243,619	235,618

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**

	2017	2016
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**220,167**	211,877
Amortisation of lease prepayments	**1,749**	1,748
Impairment losses on trade and other receivables recognised/ (reversed)	**1,049**	(39,308)
Auditor's remuneration	**2,502**	2,500
Operating lease charges	**1,367**	1,445
Cost of inventories*	**3,399,980**	3,003,942

* *Cost of inventories includes RMB327,223,000 (2016: RMB350,434,000) relating to staff costs, depreciation expenses and write-down of inventories which are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.*

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2017	2016
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**31,775**	24,645
Provision for Hong Kong Profits Tax	**–**	2,270
	31,775	26,915
Deferred tax		
Origination and reversal of temporary differences	**11,621**	(11,995)
	43,396	14,920

(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, TG Aihe and TG Tech are subject to a preferential income tax rate of 15% in 2017 available to enterprises which qualify as a High and New Technology Enterprise (2016: 15%).

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

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% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2017.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation	**218,097**	130,916
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2016: 25%)	**54,524**	32,729
Effect of preferential tax rates	**(20,396)**	(12,027)
Effect of different tax rates	**(1,266)**	(1,169)
Tax effect of non-deductible expenses	**1,300**	1,517
Tax effect of non-taxable income	**(555)**	(548)
Withholding tax on distributed dividends	**22,222**	–
Tax effect of bonus deduction for research and development expenses	**(6,338)**	(4,500)
Reversal/(recognition) of previously over-recognised/(unrecognised) deductible temporary difference	**2,112**	(2,112)
(Over)/under-provision in respect of prior year	**(8,207)**	1,030
Actual tax expense	**43,396**	14,920

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB169,099,000 (2016: RMB110,571,000) and the weighted average of 2,220,546,288 ordinary shares (2016: 2,220,080,000 shares) in issue during the year:

Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	**2,220,080,000**	2,220,080,000
Effect of exercise of share options	**466,288**	–
Weighted average number of ordinary shares at 31 December	**2,220,546,288**	2,220,080,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB169,099,000 (2016: RMB110,571,000) and the weighted average number of ordinary shares of 2,226,347,577 shares (2016: 2,222,429,272 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December	**2,220,546,288**	2,220,080,000
Effect of equity settled share-based transactions	**5,801,289**	2,349,272
Weighted average number of ordinary shares (diluted) at 31 December	**2,226,347,577**	2,222,429,272

The calculation of diluted earnings per share for the year ended 31 December 2017 did not include the potential effects of 22,147,000 (2016: 22,147,000) shares options during the year as they have anti-dilutive effects on the basic earnings per share for the year. The calculation of diluted earnings per share for the year ended 31 December 2016 also did not include the potential effects of 40,000,000 share warrants as they have anti-dilutive effects on the basic earnings per share for the year.

10 TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**1,019,779**	988,696
Bills receivables	**726,603**	416,596
Less: impairment losses	**(38,359)**	(37,310)
Net trade and bills receivables	**1,708,023**	1,367,982
Prepayments	**231,444**	125,342
Non-trade receivables	**104,704**	84,059
Less: impairment losses on non-trade receivables	**–**	–
Net prepayments and non-trade receivables	**336,148**	209,401
	2,044,171	1,577,383

Substantially all of the trade receivables are expected to be recovered within one year.

Trade receivables of RMB123,200,000 (2016: RMB147,748,000) have been pledged to a bank as security for the Group's bank loans.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of impairment losses, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**1,521,338**	1,118,311
4 to 6 months	**117,972**	144,452
7 to 12 months	**44,940**	74,003
1 to 2 years	**13,457**	17,319
Over 2 years	**10,316**	13,897
	1,708,023	1,367,982

Trade and bills receivables are due from 90 to 180 days from the date of billing.

(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.

Movement in the impairment losses provision during the year, including both specific and collective loss components, is as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**37,310**	76,618
Impairment loss recognised/(reversed)	**1,049**	(39,308)
At 31 December	**38,359**	37,310

(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:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,521,338**	1,123,111
Less than 3 months past due	**67,915**	23,421
3 to 6 months past due	**13,814**	2,471
Over 6 months past due	**19,291**	15,506
Amounts past due but not impaired	**101,020**	41,398
	1,622,358	1,164,509

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

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11 TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade and bills payables	**1,138,428**	957,754
Non-trade payables and accrued expenses	**164,554**	187,375
	1,302,982	1,145,129

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:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**474,445**	472,360
4 to 6 months	**334,821**	405,858
7 to 12 months	**286,691**	34,522
1 to 2 years	**14,793**	16,182
Over 2 years	**27,678**	28,832
	1,138,428	957,754

12 DIVIDENDS

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

	2017	2016
	RMB'000	*RMB'000*
Dividend proposed after the end of the reporting period of RMB0.0378 per ordinary share (2016: RMB0.0100 per ordinary share)	**84,550**	22,114

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.

(b) Dividends payable to equity shareholders of the Company in respect of the previous financial year, approved and paid during the year

	2017	2016
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0100 per ordinary share (2016: RMB0.0065 per ordinary share)	**22,130**	14,912

In respect of the final dividend for the year ended 31 December 2016, there is a difference of RMB16,000 (2015: RMB387,000) between the final dividend disclosed in the 2016 annual financial statements and amounts approved and paid during the year which is mainly due to the RMB/HKD exchange rate difference between the fixed middle average exchange rate on the date of the 2016 annual result announcement and the actual exchange rate applied on the date of payment.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Market Review

Revenue

	For the year ended 31 December					
	2017		2016		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
DS	**1,686,470**	**43.3**	1,262,376	37.5	424,094	33.6
HSS	**654,440**	**16.8**	395,239	11.7	259,201	65.6
Cutting tools	**530,212**	**13.6**	527,821	15.6	2,391	0.5
Titanium alloy	**168,164**	**4.3**	234,295	6.9	(66,131)	(28.2)
Trading of goods	**859,157**	**22.0**	956,403	28.3	(97,246)	(10.2)
	3,898,443	**100.0**	3,376,134	100.0	522,309	15.5

DS – accounted for 43.3% of the Group's revenue in FY 2017

	For the year ended 31 December					
	2017		2016		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
DS						
Domestic	**843,822**	**50.0**	638,862	50.6	204,960	32.1
Export	**842,648**	**50.0**	623,514	49.4	219,134	35.1
	1,686,470	**100.0**	1,262,376	100.0	424,094	33.6

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

During the year, revenue generated from DS segment increased by 33.6% to RMB1,686,470,000 (2016: RMB1,262,376,000). The Group's domestic revenue in DS increased by 32.1% to RMB843,822,000 (2016: RMB638,862,000) while export revenue increased by 35.1% to RMB842,648,000 (2016: RMB623,514,000). Both domestic and export revenue contributed 50.0% of the segment revenue for the year.

The increase in revenue in the DS segment was mainly attributable to a recovery in manufacturing industry demand and an upward pricing trend in special steel. The average selling price of DS products generally increased as a result of rising procurement prices of rare metals.

HSS – accounted for 16.8% of the Group's revenue in FY 2017

	For the year ended 31 December					
	2017		2016		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**456,089**	**69.7**	262,817	66.5	193,272	73.5
Export	**198,351**	**30.3**	132,422	33.5	65,929	49.8
	654,440	**100.0**	395,239	100.0	259,201	65.6

HSS, manufactured using rare metals including tungsten, molybdenum, chromium, vanadium and cobalt, is characterised by greater hardness, heat resistance and durability. These attributes make HSS suited to such applications as cutting tools and in the manufacture 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.

Both domestic and export revenue experienced an increase in 2017. The Group's domestic revenue increased by 73.5% to RMB456,089,000 (2016: RMB262,817,000), while export revenue increased by 49.8% to RMB198,351,000 (2016: RMB132,422,000).

Similar to DS, the increase in HSS revenue was attributable to a recovery in demand and an upward pricing trend.

Cutting tools – accounted for 13.6% of the Group's revenue in FY 2017

	For the year ended 31 December					
	2017		2016		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Cutting tools						
Domestic	**246,309**	**46.5**	201,970	38.3	44,339	22.0
Export	**283,903**	**53.5**	325,851	61.7	(41,948)	(12.9)
	530,212	**100.0**	527,821	100.0	2,391	0.5

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

In the PRC domestic market, the average selling price of HSS cutting tools was increased in line with the price rising of HSS as discussed above, leading to an increase in domestic revenue by 22.0% to RMB246,309,000 (2016: RMB201,970,000).

For overseas market, demand for high end cutting tools shifted from certain HSS cutting tools to carbide tools. To cope with this change in demand, the Group commenced production of high end carbide tools since 2016. During the transitional period, the Group's export sales volume were affected, which resulted in a decrease in export revenue by 12.9% to RMB283,903,000 (2016: RMB325,851,000).

Titanium alloy – accounted for 4.3% of the Group's revenue in FY 2017

	For the year ended 31 December					
	2017		2016		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Titanium alloy						
Domestic	**165,990**	**98.7**	233,830	99.8	(67,840)	(29.0)
Export	**2,174**	**1.3**	465	0.2	1,709	367.5
	168,164	**100.0**	234,295	100.0	(66,131)	(28.2)

The corrosion resistance nature of titanium alloy promoted the extensive applications of titanium alloy in various industries, including aerospace, chemical pipeline equipment, nuclear and ocean industries.

During the year of 2017, the Group strengthened customer credit control policies to improve the collection of trade receivables by supplying products to customers with satisfactory payment track records only, which resulted in a decrease in sales of titanium alloy by 29% to RMB165,990,000 (2016: RMB233,830,000).

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

Trading of goods

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

Financial Review

Net profit attributable to equity shareholders of the Company increased by 52.9% from RMB110,571,000 in 2016 to RMB169,099,000 in 2017. The increase was mainly attributable to (i) rebound in sales volume of the Group's DS and HSS segments during the year; and (ii) upward pricing trend in rare metals which the Group used as raw materials, which in turn resulted in increases in the average selling prices of the Group's DS, HSS and cutting tools segments.

Revenue

Revenue for the Group for 2017 totalled RMB3,898,443,000, representing an increase of 15.5% as compared with RMB3,376,134,000 in 2016. The increase was mainly attributable to an increase in revenue of the Group's two major segments, DS and HSS.

Cost of sales

The Group's cost of sales was RMB3,399,980,000 in 2017, representing an increase of 13.2% as compared with RMB3,003,942,000 in 2016, as a result of an increase in sales.

Gross margin

For 2017, the overall gross margin was 12.8% (2016: 11.0%). Set out below is the gross margin of our five segments in 2017 and 2016:

	2017	2016
DS	**16.3%**	15.7%
HSS	**19.1%**	18.6%
Cutting tools	**13.8%**	12.2%
Titanium alloy	**14.4%**	14.6%
Trading of goods	**0.2%**	0.2%

DS

The gross margin of DS increased from 15.7% in 2016 to 16.3% in 2017. The increase was mainly due to an increase in average selling prices caused by an upward pricing trend in rare metals.

HSS

The gross margin of HSS increased from 18.6% in 2016 to 19.1% in 2017. The increase was mainly due to an increase in average selling prices caused by the upward pricing trend in rare metals.

Cutting tools

The gross margin of cutting tools increased from 12.2% in 2016 to 13.8% in 2017. Benefiting from an increase in average selling price of HSS, the price of cutting tools increased accordingly, which resulted in an increase in gross margin.

Titanium alloy

The gross margin of titanium alloy decreased from 14.6% in 2016 to 14.4% in 2017. Due to the relatively limited pricing power in titanium alloy industry, the Group faced some resistance in transmitting the cost of titanium alloy products to customers. Gross margin therefore decreased, while the price of raw material sponge titanium increased.

Trading of goods

The gross margin of this segment remained stable at 0.2% (2016: 0.2%).

Other income

Other income decreased from RMB76,299,000 in 2016 to RMB64,614,000 in 2017. The decrease was mainly due to the combined effects of (i) reversal of impairment loss on trade receivables of RMB39,308,000 in 2016, which was nil in 2017; and (ii) increased PRC local government grants received for the Group's contribution to the PRC economy and technology innovation from RMB36,013,000 in 2016 to RMB53,815,000 in 2017.

Distribution expenses

Distribution expenses in 2017 were RMB85,800,000 (2016: RMB66,264,000), representing an increase of 29.5%. The increase was mainly attributable to the increase in sales volume and the increase in marketing and advertising expenditures. For 2017, distribution expenses as a percentage of revenue was 2.2% (2016: 2.0%).

Administrative expenses

Administrative expenses decreased from RMB142,918,000 in 2016 to RMB140,357,000 in 2017. The decrease was mainly due to a decrease in travelling expenses during the year. For 2017, administrative expenses as a percentage of revenue was 3.6% (2016: 4.2%).

Other operating expenses

Other operating expenses decreased from RMB12,294,000 in 2016 to RMB2,210,000 in 2017. Other operating expenses in 2016 mainly resulted from foreign exchange losses, as RMB weakened against USD and EUR throughout the year. No such significant exchange fluctuation was experienced in 2017.

Net finance costs

The Group's finance income was RMB5,795,000 in 2017, representing a decrease of RMB3,603,000, primarily due to a decrease in the average bank deposit balance. The Group's finance expense was RMB118,205,000 in 2017, representing an increase of 4.9% from RMB112,697,000 in 2016. The increase resulted from a higher level of average interest-bearing borrowing balances and increased average borrowing costs.

Income tax

As set out in Note 8 of the consolidated statement of profit or loss, the Group's income tax expense increased by 190.9% from RMB14,920,000 in 2016 to RMB43,396,000 in 2017, mainly because of an increase in the Group's profit before taxation and withholding tax expenses from dividends distributed to the entity outside PRC for the year.

Profit for the year attributable to equity shareholders of the Company

As a result of the factors set out above, the Group's share of profit increased by 52.9% from RMB110,571,000 in 2016 to RMB169,099,000 in 2017. The margin of profit attributable to equity shareholders of the Company increased from 3.3% in 2016 to 4.3% in 2017.

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

For 2017, total comprehensive income for the year attributable to equity shareholders of the Company was RMB154,544,000 (2016: RMB156,284,000) after taking into account foreign currency translation differences and fair value adjustments on available-for-sales securities.

During the year, the Group credited to other comprehensive income a foreign currency translation difference of RMB4,825,000 (2016: debited RMB27,642,000) related to translation of financial statements of Hong Kong subsidiaries and overseas equity accounted investees.

The Group also recognised a fair value loss in the consolidated statement of profit or loss and other comprehensive income of RMB19,380,000 (2016: gain of RMB73,355,000) on its available-for-sales securities investment.

Other financial assets

The Group has invested in shares in Bank of Jiangsu. Previously, there was no quoted market price or active market for shares in Bank of Jiangsu before it was listed on the Shanghai Stock Exchange on 2 August 2016. After the listing of Bank of Jiangsu, the Group's other financial assets comprising 10,000,000 shares in Bank of Jiangsu was valued at RMB73,500,000 according to its fair value of RMB7.35 per share as at 31 December 2017 (2016: RMB96,300,000). The fair value loss, net of tax, of RMB19,380,000 was recorded in other comprehensive income during the year.

Trade and bills receivables

Trade and bills receivables increased from RMB1,367,982,000 in 2016 to RMB1,708,023,000 in 2017, which was mainly due to the expansion of sales. Debts collection efficiency and effectiveness were also enhanced in 2017. Approximately 89% of trade and bills receivables were neither past due nor impaired. During the year, trade receivables impairment losses increased by RMB1,049,000, which was in line with the balance of trade and bills receivables out of credit term.

Outlook

After improving its pricing power in the PRC domestic market and establishing distribution networks in Eastern and Southern China, the Group realised that research and development and product advancement were essential to optimise in pricing and distribution networks.

To enhance innovation and research and development capabilities, the Group upgraded existing products through independent research and development on process re-engineering. Meanwhile, having cooperated with external research professionals, the Group combined its own equipment advantages and external technology advances to accelerate progress of research and development in high end new material area.

On independent research and development, the Group reengineered the manufacturing process to reduce production costs and speed up turnover of work in progress. On external cooperation, the Group and Nanjing Tech University jointly set up a laboratory, in which Mr. Zhou Lian, an academician of the Chinese Academy of Engineering, was employed as Chief Technical Consultant, to specialise in titanium alloy marine engineering new materials research and production. The Group and Ningbo Sino-Ukrainian Vision New Materials Technology Co., Ltd. jointly established a laboratory to focus on aviation materials, military products and powder metallurgy applications.

The Group continuously expanded its production facilities in the steel sheet project and carbide cutting tools project. The powder metallurgy project was officially authorised in the year, which shall prepare the Group for the future high end markets.

In terms of sales control management, the Group has improved the efficiency of debt recovery by applying online sales control systems, focusing on filtering of credible customers and strengthening the regulation of credit terms granted to different customers.

Regarding new market development, the Group's newly established associate in Mexico has officially commenced operations during the year, which further expanded the Group's presence and influence in the North America market.

On 29 January 2018, Jiangsu Tiangong Investment Management Co., Ltd. ("TG Investment"), an indirect wholly owned subsidiary of the Company, entered into a subscription agreement with JM Digital Steel Inc., a company limited by shares quoted on The National Equities Exchange and Quotations System (stock code: 834429) ("JM Digital"), pursuant to which TG Investment agreed to subscribe for 6,670,000 new shares in JM Digital, representing approximately 4.42% of the enlarged registered capital of JM Digital, at RMB3.00 per share, for a total consideration of RMB20,010,000. JM Digital is a company limited by shares established in the PRC which principally engages in online sales of steel. The e-commerce platform would allow the Group to follow the state advocated "Internet +" macro policy, focusing on transformation of the Group's traditional distribution channel of steel products by using internet technology. The Group is expected to benefit from use of e-commerce platform as a distribution channel for direct selling to end-consumers. This direct sales channel will also be more beneficial to the Group's cash flow management.

The Group continuously enhanced its market influence during the year. In the domestic market, the Group presented as the only global partner at the third China Manufacturing 2025 Summit Forum. In overseas markets, after obtaining a favourable decision from the European Commission in the anti-dumping and anti-subsidy cases against the China industry of flat-rolled products of iron, non-alloy steel or other alloy steel in 2016, the Group received another favourable decision in Turkey in 2017.

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

Last but not least, we re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance is always our top priority.

Forward Looking Statements

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

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

Liquidity and Financial Resources

As at 31 December 2017, the Group's current assets included cash and cash equivalents of RMB219,798,000, inventories of RMB1,896,864,000, trade and other receivables of RMB2,044,171,000, pledged deposits of RMB241,380,000 and time deposits of RMB500,000,000. As at 31 December 2017, the interest-bearing borrowings of the Group were RMB2,993,292,000 (2016: RMB2,888,912,000), RMB2,170,279,000 of which were repayable within one year and RMB823,013,000 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 2017, was 67.8% (2016: 64.1%).

The increase in borrowings was mainly attributable to the increased cash demand as a result of expansion of production and sales in the DS and HSS segments. As at 31 December 2017, borrowings of RMB2,145,300,000 were in RMB, USD59,578,963 were in USD and EUR58,789,206 were in EUR. The borrowings of the Group were subject to interest payable at rates ranging from 0.90% to 5.5% per annum. There is no seasonality in borrowing requirements of the Group. The Group did not enter into any financial instruments to hedge itself against risks associated with interest rates and foreign currency exchange fluctuations.

During the year, net cash generated from operating activities was RMB215,006,000 (2016: RMB494,768,000). Comparing to 2016, more sales arose in the second half of 2017. Accordingly, unsettled receivables within normal credit period increased and resulted in a decrease in net cash generated from operating activities in 2017.

Cash Conversion Cycle

The cash conversion cycle, calculated as turnover days over inventory, plus turnover days over trade receivables, minus turnover days of trade payables, attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers. It is important to manufacturers because it measures the efficiency of their capital chain management.

The Group's turnover days of inventory for 2017 was 204 days (2016: 230 days). The relatively long turnover days of inventory is common in the special steel industry due to the complex production process. The improved turnover days of inventory was mainly due to the more effective and efficient control over production cycle and improved technical skills to shorten some specified production processes. The Group's turnover days of trade receivables for 2017 was 144 days (2016: 164 days). The improved turnover days of trade receivables was mainly due to the strengthened credit control and debts collection policy implemented by the Group during the year. The Group's turnover days of trade payables for 2017 was 113 days (2016: 131 days). The shortened turnover days of trade payables was due to more timely payment to suppliers.

Accordingly, the Group's cash conversion cycle for 2017 was 235 days (2016: 263 days). The improved cash conversion cycle was mainly due to the more effective and efficient control over the inventory and trade receivables. Please note that the calculation of the aforesaid indexes may not be consistent with those measurement indexes published by other issuers.

Capital Expenditure and Capital Commitments

For 2017, the Group's net increase in property, plant and equipment amounted to RMB76,180,000, which was mainly expenditure on the production plant for steel sheet project, research centre and upgrading of old production lines and were financed by a combination of our internal cash resources, operating cash flows and bank borrowings. As at 31 December 2017, capital commitments were RMB435,362,000 (2016: RMB209,198,000), of which RMB25,362,000 (2016: RMB56,921,000) were contracted for and RMB410,000,000 (2016: RMB152,277,000) were authorised but not contracted for. The majority of the capital commitments related to investment in the production line of powder metallurgy and intelligent facility for cutting tools and will be funded by internal resources and operating cash flows of the Group.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, USD and EUR, with RMB accounting for the largest portion of 66.0%. 34.0% of total sales 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 minimise the financial impact of exchange rate exposures.

Pledge of Assets

As at 31 December 2017, the Group pledged certain bank deposits amounting to RMB241,380,000 (2016: RMB180,180,000), certain trade receivables amounting to RMB123,200,000 (2016: RMB147,748,000) and other financial assets amounting to RMB73,500,000 (2016: RMB96,300,000). The increase in pledged bank deposits was to support the increased bank bill facility of the Group.

Employees' Remuneration and Training

As at 31 December 2017, the Group employed 2,951 employees (2016: 3,423 employees). Total staff costs during the year amounted to RMB243,619,000 (2016: RMB235,618,000). The Group provided employees with remuneration packages comparable to market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous training for all of its staff on a regular basis.

Contingent Liabilities

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

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 May 2018 to 14 May 2018 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "Annual General Meeting") on 14 May 2018, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 8 May 2018.

The Board has resolved on 15 March 2018 to recommend the payment of a final dividend of RMB0.0378 per share for the year ended 31 December 2017 (2016: RMB0.0100) to shareholders of the Company whose names appear on the register of members of the Company on 23 May 2018. The register of members will be closed from 19 May 2018 to 23 May 2018, both days inclusive, and the proposed final dividend is expected to be paid on or before 8 June 2018. The payment of dividends shall be subject to the approval of the shareholders of the Company at the Annual General Meeting expected to be held on 14 May 2018. In order to qualify for the proposed dividend, shareholders of the Company should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 18 May 2018.

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "2007 Share Option Scheme") on 7 July 2007. On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the Directors and employees of the Company in respect of their services to the Group. These share options had vested on 1 July 2012 and have an initial exercise price of HKD5.10 per share of USD0.01 each and an exercise period ranging from 1 July 2012 to 30 June 2016. The closing price of the Company's shares at the date of grant was HKD5.10 per share of USD0.01 each. Due to the implementation of share subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the 2007 Share Option Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275 per share. All the unexercised share options for 3,080,000 shares lapsed on 1 July 2016.

On 17 January 2014, options entitled holders to subscribe for a total of 9,057,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. Among the total 9,057,000 shares options, 55,000 shares options were not vested and the remaining share options were vested on 1 June 2014 and have an initial exercise price of HKD2.50 per share of USD0.0025 each and an exercise period ranging from 1 June 2014 to 31 May 2016. The closing price of the Company's shares at the date of grant was HKD2.48 per share of USD0.0025 each. All the unexercised share options for 9,002,000 shares lapsed on 1 June 2016.

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

Subsequently on 22 July 2016, options entitled holders to subscribe for a total of 18,970,000 shares of USD0.0025 each were granted to and accepted by certain Directors and employees of the Company in respect of their services to the Group. These share options were vested on 1 January 2017 and have an initial exercise price of HKD0.60 per share of USD0.0025 each and an exercise period ranging from 1 January 2017 to 31 December 2017. The closing price of the Company's shares at the date of grant was HKD0.56 per share of USD0.0025 each. All the share options for 18,970,000 shares were exercised between 21 December 2017 to 27 December 2017.

The 2007 Share Option Scheme expired on 6 July 2017. A total of 35,170,000 shares have been allotted and issued pursuant to the 2007 Share Option Scheme, 34,764,000 options granted under the 2007 Share Option Scheme were cancelled and lapsed and 22,147,000 options granted under the 2007 Share Option Scheme remained outstanding and exercisable at 31 December 2017 according to the terms of grant, notwithstanding the expiry of the 2007 Share Option Scheme.

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

On 11 January 2018, options entitled holders to subscribe for a total of 60,000,000 shares of USD0.0025 each were granted to and accepted by the Directors, employees and consultants of the Company in respect of their services to the Group. Subject to certain vesting conditions, (i) 30,000,000 share options will be vested on 31 March 2019 and have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period ranging from 1 April 2019 to 31 December 2019; and (ii) the remaining 30,000,000 share options will be vested on 31 March 2020 and have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period ranging from 1 April 2020 to 31 December 2020.The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each (for details, please refer to the announcements of the Company dated 11 January 2018 and 18 January 2018).

GENERAL OFFER

As jointly announced by Sky Greenfield Investment Limited (the "Offeror") and the Company on 14 September 2017, ABCI Capital Limited, on behalf of the offeror, made voluntary conditional cash offers (i) to acquire all of the outstanding shares in the issued share capital of the Company (other than those already owned by the Offeror and its concert parties) at the price of HK$0.90 per share; and (ii) to cancel all the outstanding options of the Company at HK$0.01 per option with exercise price at HK$1.78 per option and HK$0.30 per option with exercise price at HK$0.60 per option. On close of the offers on 1 December 2017, the Offeror received valid acceptances in respect of a total of 578,352,521 shares under the share offer, representing approximately 26.051% of the entire issued share capital of the Company as at 1 December 2017. As a result, the Offeror and its concert parties held an aggregate of 1,367,342,521 shares, representing approximately 61.590% of the entire issued share capital of the Company as at 1 December 2017.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

CORPORATE GOVERNANCE

The Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2017, except for the following deviation:

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors ("INEDs") and other non-executive directors should also attend general meetings. One of the INEDs, Gao Xiang was unable to attend the annual general meeting of the Company held on 26 May 2017 due to health reasons.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 14 March 2018 to consider and review the 2017 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 2017 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). All of the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors and employees who may possess or have access to price sensitive information or inside information during the year ended 31 December 2017.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2017 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

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

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

Hong Kong, 15 March 2018

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

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

Independent Non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis, WANG Xuesong

* *For identification purpose*