天工國際有限公司*

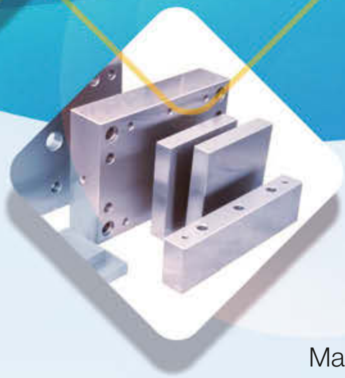
TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

ANNUAL REPORT 2017

* *For identification purpose only*



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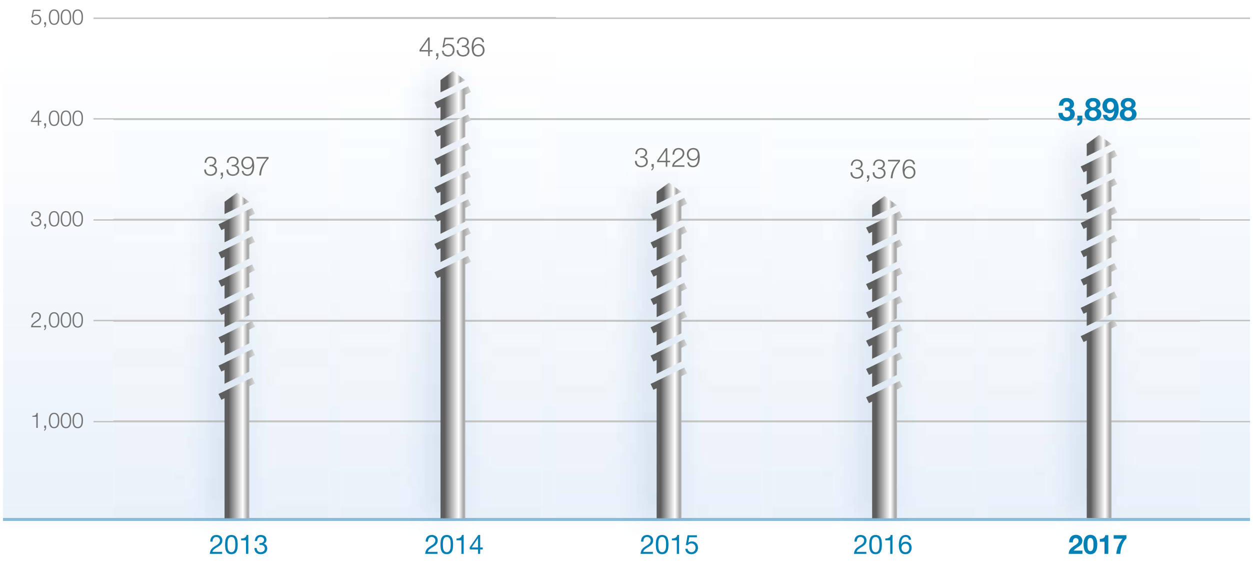
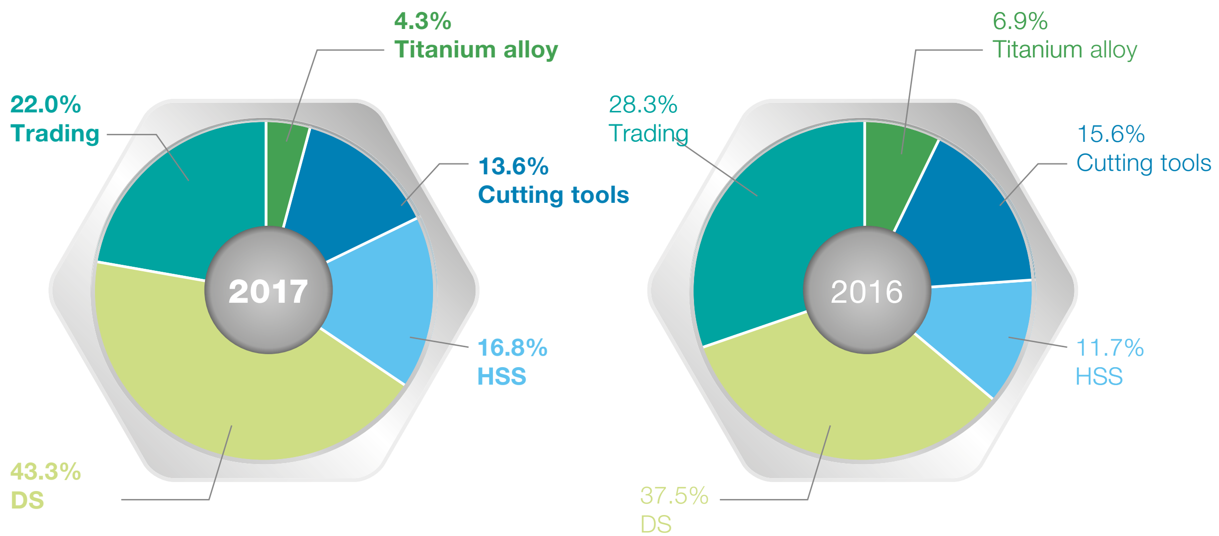
Financial Highlights

	2017	2016
Revenue (RMB'000)	**3,898,443**	3,376,134
Net profit for the year attributable to equity shareholders of the Company (RMB'000)	**169,099**	110,571
Basic earnings per share (RMB)	**0.076**	0.050
Proposed final dividend per share (RMB)	**0.0378**	0.0100

Revenue
RMB' million



Revenue by Product Mix



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 2017.

In respect of financial performance, revenue of the Group for the year ended 31 December 2017 achieved RMB3.898 billion, representing an increase of 15.5% as compared to 2016. The increase was mainly attributable to an increase in revenue of the Group's two major segments, die steel ("DS") and high speed steel ("HSS"). Comparing to that of 2016, gross profit increased significantly by 33.9% to RMB498 million. Net profit attributable to equity shareholders of the Group significantly increased by 52.9% to RMB169 million. Sales recovered and the average selling prices increased steadily, resulting in the increased gross margin. We believe that the Group's performance will further improve in the coming year.

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

On independent research and development, through advanced waste material recycling production expertise and independent capabilities on process re-engineering, the Group reduced production costs and sped up turnover of work in progress. In addition, the Group focused on the upgrading of existing products through successful resolution of a series of production technology problems.

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 Powder Metallurgy Project was formally approved during the year to make the Group ready for the future high end market.

Regarding new market developments, 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. In addition, the Group explored the "Belt and Road" markets according to the state's policies. Furthermore, the Group followed the state advocated "Internet+" macro policy and expects to benefit from use of e-commerce platform as a distribution channel for direct selling to end-consumers. This direct sales channel will also benefit the Group's cash flow management.

Regarding the import tariffs imposed by government of the United States on steel, based on the fact that the export revenue of the die steel and high speed steel produced by the Group to the United States during the year ended 31 December 2017 accounted for less than 2.5% of the Group's total revenue, it is expected that the Group's financial position will not be adversely affected.

Regarding industry policy, the "China Manufacturing 2025 Plan" will benefit not only special steel production, but also the whole manufacturing industry. According to the "Thirteenth Five-year Plan", DS, HSS, titanium alloy and powder metallurgy products are classified in the strategic emerging industry development plan. The Group will keep on taking innovation and advancements to move into the new material industry.

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.

Management Discussion and Analysis

Management Discussion and Analysis

Business and Market Review

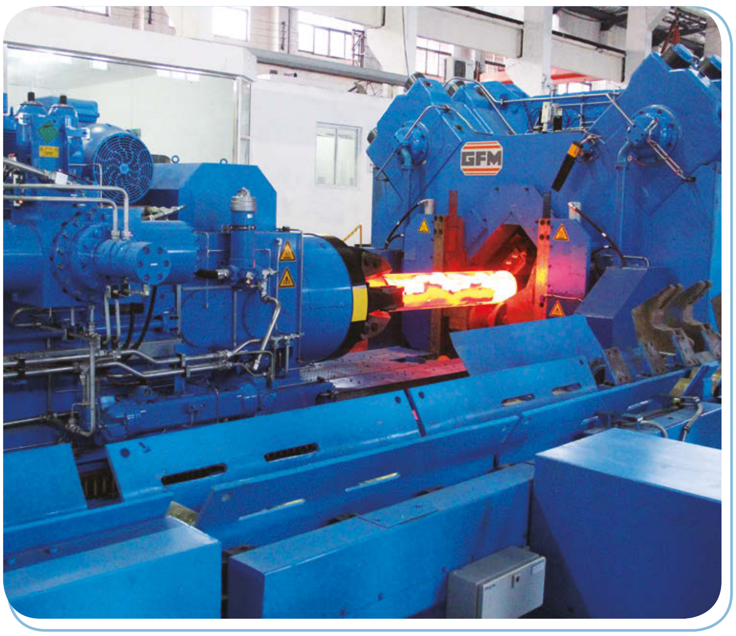
Revenue

	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 bits 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 markets, 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 9 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 on 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 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. Also, in cooperation with external research professionals, the Group combined its own equipment advantages and external technology advances to accelerate progress of research and development in the high end new materials 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 will 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 will 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 expects to benefit from use of the e-commerce platform as a distribution channel for direct selling to end-consumers. This direct sales channel will also benefit 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.

Principal Risks and Uncertainties

The main activities of the Group include production and sales of DS, HSS, cutting tools and titanium alloy. The Group is exposed to a variety of financial risks including credit risk, liquidity risk, currency risk and interest rate risk. Details of the above main risks and measures for risk reduction are set out in note 31 to the financial statements.

Apart from the financial risks mentioned above, the Group is exposed to certain operating risks and uncertainties including rare metal price volatility and market demand.

Risks and uncertainties arising from rare metal price volatility

Rare metals represented a significant portion in the cost of materials of the Group's products. The price of rare metals significantly affected the per unit production costs of the Group's products. In view of the risk of rare metal price volatility, the Group has already engaged with rare metal suppliers to obtain discounted prices for purchasing rare metal over a fixed period of time. Moreover, since the price of rare metal is publicly available market information, the Group was capable to partially transmit the effect of rare metal price volatility to downstream customers. However, because of the transparency of the rare metal price, in extreme situations where the rare metal price remained low, the Group could be under pressure to make downward pricing adjustments on our products.

Risks and uncertainties arising from market demand of the Group's products

The Group's business and profitability growth were affected by the uncertainties of global macroeconomic situations, which could materially affect the manufacturing industry. These uncertainties eventually affect the demand of the Group's products. To minimise the effect of global macroeconomic uncertainties, the Group continued to develop new markets all over the world. The Group believes that the best way to manage such risks and uncertainties is to avoid reliance on demand from a particular economy.

In Compliance with Laws and Regulations

As a company listed in Hong Kong, the Company is subject to the regulations of the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Since the shares of Jiangsu Tiangong Technology Company Limited ("TG Tech"), a 74.03% owned subsidiary of the Company, are quoted on the National Equities Exchange and Quotations System (the "NEEQ System"), TG Tech is subject to the regulations of the NEEQ System. Also, various PRC government authorities, particularly the State Environmental Protection Administration, have the authority to issue and implement regulations governing various aspects of special steel production. The Group will constantly update and ensure compliance with new rules and regulations issued by these regulators.

As at 31 December 2017 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 as assets 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 longstanding and good relationships with its suppliers. Our procurement department conducted regular meetings with the suppliers of raw materials and utilities to ensure that raw materials supplied were in stable supply and of good quality.

(iii) Customers

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

Environmental, Social and Governance Report

Environmental, Social and Governance Report

About the Environmental, Social and Governance Report

This is the second Environmental, Social and Governance Report (hereafter referred to as "the ESG Report") published by Tiangong International Company Limited (hereafter referred to as "the Company"). The ESG Report mainly covers the annual performance on various aspects with regard to compliance during operation, employees' rights, environmental protection and community investment, etc., of the Company and its subsidiaries (collectively referred to as "the Group") in 2017. It is to be read in conjunction with "Corporate Governance Report" of *Tiangong International Company Limited 2017 Annual Report* ("2017 Annual Report"), so as to have a comprehensive understanding of the environmental, social and corporate governance performance of the Group.

ESG Reporting Scope

Unless otherwise stated, the organizational scopes of the ESG Report cover the Company and its major subsidiaries. Subsidiaries and affiliates of the Group, which are not directly engaged in production and therefore have little impacts on the overall environmental and social performance of the Group, are not included in the reporting scope of the ESG Report. If their operation has greater impacts on the environmental and social performance of the Group in the future, those companies would be incorporated into the scope of ESG reports in future fiscal years. All information disclosed in the ESG Report was sourced from the Group's documents and statistics. The Group certifies the truthfulness, accuracy and completeness of the ESG Report.

The ESG reporting period is consistent with that stated in the 2017 Annual Report of the Group, which is 1 January 2017 to 31 December 2017 ("reporting period").

Reporting Guideline

The ESG Report was prepared based on the *Environmental, Social and Governance Reporting Guide* under Appendix 27 to the *Rules Governing the Listing of Securities* ("Listing Rules") issued by The Stock Exchange of Hong Kong Limited ("SEHK"). Moreover, the principles of materiality, quantitative, balance and consistency were applied to determine and disclose the contents of the ESG Report.

Reporting Language

The ESG Report is published in two versions, Traditional Chinese and English. If there is any inconsistency between the Traditional Chinese version and English version, the Traditional Chinese version shall prevail.

Comments and Feedback

Your feedback is immensely important for the Group to keep enhancing its environmental and social performance. If there are any comments or feedback, you are welcome to contact us by email at tiangong@biznetvigator.com.

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Wanchai, Hong Kong

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1. About the Group

With a dream and dedication, the Group concentrates on manufacturing special steel, cutting tools and titanium alloy. The Group persists in improving the qualities of its products patiently and provides top of the line products in steel industry. The Group builds its brand with wisdom and sweat. Moreover, upholding the idea of fulfilling corporate and social responsibility, the Group increases investment in environmental and social development, and fights for the realization of sustainable development.

During the reporting period, the Group has further enhanced its environmental and social management and improved the environmental and social policies and regulations relating to environmental protection, occupational health and safety, supply chain management, employee management, etc. In addition, the Group achieved the targets set in the framework of sustainable development. The preparation of the ESG Report was made with the engagement of employees from different departments of the Group. Meanwhile, the Group devotes to communicating with each stakeholder by different means, such as e-mail, website, annual report, etc., so as to have a better understanding on the Group's current condition of sustainable development.

2. Compliance management

The production principle of the Group is "production is subject to safety, production is subject to environmental protection, production is subject to quality".

2.1 Product Responsibility

The Group carries out quality tests for product quality by precise instruments

The Group is the manufacturer of special steel, cutting tools and titanium alloy and also a high and new tech enterprise in China. Producing quality products in the New Material industry is the goal that the Group always strives for. The Group strictly complies with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress, including but not limited to the *Work Safety Law of the People's Republic of China*, the *Recommendation Concerning Safety in the Use of Chemicals at Work,* the *Advertising Law of the People's Republic of China* and the *Trademark Law of the People's Republic of China,* etc. For guaranteeing quality of products, the Group has established and implemented quality control systems in accordance with the *Quality Management Systems—Requirements of National Standard of the People's Republic of China (GB/T 19001-2008, identical to ISO 9001:2008, Quality Management Systems—Requirements)* and has carried out measurement management of products according to ISO 10012:2003 *Measurement Management System*. The Group has applied strict regulations to the production processes. A series of tests is conducted for the quality of products from the acceptance of raw material to product manufacturing to guarantee that the products achieve relevant requirements regarding health and safety, labelling, environmental protection, etc., before entering into market. Due to the persistence in maintaining high quality of products, the Group is one of the enterprises in Jiangsu Province whose management is certified by Chinese Grade 1 Management and Measurement System.

During the reporting period, the Group did not receive any notice or punishment on violation of laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and methods of redress.

2.2 Supplier Management

The Group could not achieve sustainable development without working together with its suppliers. The Group has formulated supplier assessment systems and conducted regular assessments of the environmental and social performance of suppliers. These systems guarantee the quality of raw material and equipment used in the production of the Group and strengthens the Group's relationship with suppliers so as to create a beneficial cooperation together. On-site evaluations would be conducted regularly by the Group to assess the performance of social responsibilities of suppliers. For instance, if suppliers have violations of labor regulations, including employment of child labor, forced labor, etc., the Group would immediately terminate the cooperation with them.

Furthermore, the Group would consider the operation location of suppliers and try to choose local suppliers to reduce the emissions of pollutants due to long-distance transportation.

2.3 Legal Management

The Group strictly abides by the applicable laws and regulations relating to bribery, extortion, fraud and money laundering, including but not limited to the *Criminal Law of the People's Republic of China*, the *Regulations of the People's Republic of China for Suppression of Corruption*, Listing Rules and fair competition rules. In addition, the Group has formulated and implemented the disciplinary measures for employees and the *Regulation for Administration of Procurement of Supplies and Price Accounting*. Both employees and business partners are required by the Group to comply with relevant regulations to ensure the implementation of legal governance. The Group requires that the procurement staff shall not leave any economic interests with suppliers and shall be honest in performing duties. During the reporting period, members of the Group have not been named in any case of corruption.

Moreover, regarding the information of the Group and its clients, the Group strictly abides by the applicable archives management measures and confidentiality rules to keep the information safe.

3. People-oriented

The Group always takes outstanding talents as its valuable asset. The Group proactively creates a working environment with mutual respect, mutual understanding, mutual trust and continuous development. The Group aims to realize the joint development of employees and the Group. The Group believes that these respect, understanding, trust and development are the bridge and bond between the Group and employees, which encourage them to pursue and achieve their goals together happily.

3.1 Employee Policies

The Group strictly complies with relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity and other benefits and welfare, including but not limited to the *Labor Law of the People's Republic of China,* the *Labor Contract Law of the People's Republic of China,* the *Trade Union Law of the People's Republic of China* and the *Special Rules on the Labor Protection of Female Employees.* Devoting to build a professional employee team with strong coherence, the Group takes "nurturing prosperous enterprise and promoting well-being of employees" as its goal of employee management, and has formulated and implemented the *Human Resources Management Rules of Tiangong International Company Limited*. The Group has implemented reasonable working hours, sound labor contract system and recruitment system, comprehensive promotion mechanisms and remuneration and benefit policies, which enable employees to keep their mind on work. During the reporting period, the Group did not receive any notice or punishment due to serious violations of relevant national labor laws and regulations.

According to the formulated *Recruitment Policy* of the Group, the recruitment is conducted through various ways, such as online recruitment, job fair, etc., under the principle of "openness, fairness, competition, competitive selection and resource". During recruitment, the human resources department of the Group verifies the background of every candidate by checking his/her personal documents, such as identity card, diploma and so on. The Group enters into individual employment contracts with its employees to cover matters such as wages, employee benefits and safety at the workplace and grounds for termination, etc. In addition, the Group has paid the contributions to employees' social insurance funds (including medical insurance, unemployment insurance, pension insurance, work-related injuries insurance and childbirth insurance) and housing provident funds for its employees. The Group ensures that employees are legally entitled to take paid leaves and other public holidays, and the Group prohibits forced labor.

In order to seek and cultivate outstanding management personnel, the Group takes "character is the most important, performance is the basis, seniority is the supplement" as its employee promotion standards. The Group proactively creates a positive and motivating working environment and promotes passion for work among employees. Meanwhile, the Group promotes employment policies that equality and diversity are considered, and it does not discriminate against employees because of race, nationality, colour, gender and other conditions. In order to protect employees' rights and show how the Group treats them as one of its important stakeholders, the Group holds employee representative meeting each year and proactively listens to employees about their recent opinions on the Group. This is the way of democratic decision-making of the Group.

Regarding child labor prevention, the Group strictly complies with the applicable laws and regulations, such as the *Law of the People's Republic of China on the Protection of Minors*, resolutely objecting to hire child labor under 16 years old.

3.2 Safety First

The Group always upholds the safety production principle of "safety first, precaution crucial" and takes full responsibilities for safety. The Group strictly complies with relevant national laws and regulations, such as the *Work Safety Law of the People's Republic of China,* the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases,* the *Special Equipment Safety Law of the People's Republic of China,* the *Standards Labor Protection Articles of Jiangsu Province,* the *Interim Provisions on the Inspection, Elimination and Control of Potential Work Safety Risk*, etc. In addition, the Group has formulated and implemented the occupational health and safety management systems, the plans for inspection, elimination and control of potential risks, the safety operation manuals for each equipment, and the emergency response plans. During the reporting period, the Group has not been notified of any notice or punishment due to violations of relevant laws and regulations in China relating to occupational health and safety.

The fire drill of TG Tools in 2017

In order to ensure the implementation of safe production and relevant safety measures, the Group requires every employee to enter into a safety commitment after finishing relevant safety trainings and understanding all contents of the commitment. In addition, the Group has established a post-oriented work safety responsibility system, which specifies work safety responsibility of each personnel to assure the implementation of all safe-related tasks. Apart from holding regular safety meeting, the Group arranges relevant personnel to conduct workplace safety inspections and to handle issues of non-compliance. By this mean, it is able to effectively reduce the potential safety risks and resolve other related issues in the workplace. At the same time, the Group proactively improves the working environment and equipment for employees to prevent occupational diseases. Physical examination and various safety trainings are organized by the Group to raise the safety awareness of its employees.

Jiangsu Tiangong Tools Company Limited ("TG Tools") held fire drill in 20 October 2017. The purpose of the fire drill was to raise employees' awareness on fire safety and to strengthen their response capability in handling potential safety hazards.

The Group invited a teacher from Red Cross to provide employees a lesson about first aid and conducted a first aid drill, so as to raise their safety awareness and to improve their first aid skills.

3.3 Training and Development

The Group strives to continuously strengthening the training of all types of personnel. Through continuously improving the management of the employee training center, the Group has established a comprehensive and standardized training system to increase the fundamental and professional knowledge of employees as well as to lay a solid foundation of sustainable development of the Group and its employees.

First aid seminar of the Group in 2017

The Group has formulated and implemented the *Orientation Training Plan for New Employee of Tiangong International Company Limited* to standardize the orientation training management of new employees. By doing so it is able to facilitate them to be familiar with and adapt the culture, policies and code of conduct of the Group quicker and better, and to handle the job well. The orientation training includes introductions to the Group's management philosophy and corporate culture, safe operation management, knowledge about quality management, safe operation rules and precaution, etc. In addition, aiming to cultivate talents in a better way and to enhance the cohesion between employees, the Group promotes the training of all types of personnel by the "deliver, help and teach face to face" program. The "deliver, help and teach face to face" program, also called "master-apprentice" program, is a training program that the Group implemented. Under this program, a new employee is paired with an experienced employee through a one-on-one apprenticeship agreement in which the experienced employee is obligated to deliver and share experiences and methods with new employees. The experienced employees take full responsibility of drawing up the "deliver, help and teach face to face" training plan according to actual circumstances and provide guidance and assistance to his/her apprentice. They could make progress together through discussion and working together.

Moreover, a teacher from external education institution was invited by the Group to teach employees lessons of *Thematic Training of Improving Management Capabilities for Middle and Senior Management.* The training topics included team building, team cooperation and communication, employee motivation, etc. Those employees who participated in the training shared their learning experience after training and hence deepened their understanding.

4. Implementing Environmental Protection

The Group implements the principle of "production must be subject to safety, production must be subject to environmental protection, production must adhere to green development". Taking sustainable development as its target, the Group strictly complies with relevant environmental laws and regulations, comprehensively strengthens environmental management, environmental protection technology and education, and promotes clean production. During the reporting period, there was no occurrence of major environmental pollution accident and environmental violation.

4.1 Protecting Environment

The Group strictly abides by relevant laws and regulations relating to air and greenhouse gas ("GHG") emissions, discharges into water and land, and generation and disposal of waste, as well as complies with policies on minimising the issuer's significant impact on the environment and natural resources. Those laws and regulations include but are not limited to the *Environmental Protection Law of the People's Republic of China,* the *Water Pollution Prevention and Control Law of the People's Republic of China,* the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste,* the *Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise* and the *Interim Measures of Jiangsu Province on Administration of Hazardous Wastes Management.* Moreover, for implementing the management of environmental protection in production and operation, the Group has formulated the *Environmental Protection Management Measures* according to the applicable national laws and regulations relating to environmental protection listed above and it strictly complies with and has conducted management relating to water pollution prevention, air pollution prevention and control, noise prevention and control, waste and use of resources.

The air emissions and GHG emissions generated from the operation of the Group are mainly due to natural gas burning and electricity consumption. The Group has accomplished the renovation of boilers and furnaces, which replaced coal with natural gas as their fuel source and reduced air pollutant emissions during their operation. In addition, there are dust and oil mist generated from the operation of the Group. Dust and oil mist collection devices have been constructed on-site accordingly to reduce their impacts on environment. Regular maintenance has been conducted by the equipment maintenance department of each production line to ensure the well operation of equipment and prevent fugitive emissions due to equipment malfunction.

As of 31 December 2017, the data of the major air emissions and GHG emissions from the Group in the reporting period is listed as follows:

Parameter	Unit	2017
Productivity (steel and titanium alloy)	Metric tons	159,658.56
Air pollutant[1]		
SO_2 emissions	Metric tons	0.49
NO_x emissions	Metric tons	59.72
GHG[2]		
Scope 1: direct emissions	Metric tons	69,017.28
Intensity of scope 1 emissions	Metric tons/metric tons of productivity	0.43
Scope 2: indirect emissions	Metric tons	271,090.42
Intensity of scope 2 emissions	Metric tons/metric tons of productivity	1.70

The Group has formulated and implemented the *Administrative Procedures on Prevention and Control of Water Pollution*. All wastewater from production is collected and transferred to the wastewater treatment plant of the Group for treatment, which ensures that the discharge of treated wastewater reaches relevant standards.

During the operation of the Group, the solid wastes generated by the Group mainly are non-hazardous wastes, including grinding swarfs, smelting slag, food waste, domestic waste, etc., and hazardous wastes, including spent lubricating oil, etc. The Group has implemented environmental protection according to relevant national and local environmental protection standards to ensure that the solid waste disposal complies with relevant requirements. As for hazardous wastes, they are properly stored in strict compliance with dangerous good management regulations and are handed over to qualified third-parties for treatment. As for non-hazardous wastes, the Group divides them in recyclable and non-recyclable wastes and they are collected separately according to the principles of reduce, reuse and recycle ("3R Principle"). For instance, the metal in the smelting slag generated from production of the Group could be reused in steel production, while other parts could be transferred to tile factor and cement plant for brick and cement production. Furthermore, the grinding swarfs would be reused in steel production. During the reporting period, the amount of recycled steel reused in steel production of the Group was approximately 51,783.09 metric tons. In addition, the spent lubricating oil produced from operation of the Group is reused after being treated in the spent lubricating oil treatment plan to reduce its generation. Since the data collection of hazardous wastes of the Group is developing, a full set data of hazardous wastes produced during the reporting period could not be disclosed temporarily. The Group would keep developing the data collection system and disclose the full dataset as soon as possible.

1 The data used in the calculation in air pollutant emissions was based on the recorded data of the Group and best conservative estimates were made based upon historical performance or benchmarking with similar facilities.

2 The calculation of GHG emissions were set out based on the *Guideline of the Greenhouse Gas Emissions Accounting and Reporting for the Chinese Steel Production Enterprise (Trial)*. The data used in the calculation was based on the recorded data of the Group and conservative estimates were made based upon historical performance data or benchmarking with similar facilities.

As of 31 December 2017, the data of major nonhazardous waste of the Group during the reporting period is listed as follows:

Parameter	Unit	2017
Major nonhazardous waste[3]	Metric tons	51,783.09
Intensity of major nonhazardous waste	Metric tons/metric tons of productivity	0.32

The Group has formulated the *Administrative Procedures on Prevention and Control of Noise Pollution*. A series of measures to mitigate noise impact has been taken, such as choosing quiet equipment first, to ensure the noise from the production of the Group complies with the *Emission Standard for industrial Enterprises Noise at Boundary*.

4.2 Use of Resources

The Group strictly complies with relevant laws and regulations relating to use of resources, such as the *Cleaner Production Promotion Law of the People's Republic of China,* the *Energy Conservation Law of the People's Republic of China*, etc. In addition, the Group has formulated and implemented waste and power saving management measures accordingly and used resources and energy reasonably in accordance with the "3R Principle". By doing so, it is able to elevate water and power use efficiency of the Group and save resources and energy.

The Group uses steel scrap and grinding swarfs, which are mainly sourced from the process of steel production, for new steel smelting and production. Grinding swarfs are recycled and reused for steel production of the Group, which greatly increases the utilization of the raw material. During the reporting period, the Group reused about 51,783.09 metric tons of grinding swarfs. The Group advocates using power reasonably, including using adequate power equipment in the specific areas according to their need for lighting and replacing traditional lighting devices by energy-saving one gradually. Furthermore, the Group requires to avoid power wasting from idling equipment.

As for water sourcing, water used by the Group is mainly sourced from municipal fresh water supplies and wells. In order to increase water efficiency, some wastewater is used as cooling water for production facilities after biochemical treatment in wastewater treatment plant.

[3] The major nonhazardous waste refers to the recycled steel that could be reused in steel production, such as grinding swarfs, metal in the smelting slag, etc.

Materiality assessment has been conducted and the Group found that the major resources used by it was electricity, water and steel. Therefore, the amount of packaging material used by the Group was not disclosed temporarily according to the principle of materiality.

As of 31 December 2017, the data of major energy consumption and water consumption of the Group during the reporting period is listed as follows:

Parameter	Unit	2017
Water consumption	Metric tons	170,593.00
Intensity of water consumption	Metric tons/metric tons of productivity	1.07
Purchased electricity	Million-watt hours	515,675.13
Intensity of purchased electricity	Million-watt hours/metric tons of productivity	3.23
Natural gas	Ten thousand cubic meters	3,192.01
Intensity of natural gas	Ten thousand cubic meters/ metric tons of productivity	0.02

5. Focusing on Community Investment

Fulfilling social responsibilities is not only the fundamental requirement of the realization of sustainable development of the Group, but also its duty. While developing its business, the Group still devotes itself to community investment and fulfilling its social responsibility by community investment and advocating traditional Chinese virtues. The Group made donation to Nanjing Normal University Education Development Foundation in the reporting period in order to support and promote higher education development.

The signing ceremony of donation agreement with Nanjing Normal University Education Development Foundation

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General Disclosures and KPIs	Description	Relevant Chapter(s) or Explanation
Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	4.1
KPI A1.1	The types of emissions and respective emissions data.	4.1
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.1
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.1
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.1
KPI A1.5	Description of measures to mitigate emissions and results achieved.	4.1
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	4.1
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	4.2
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	4.2
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	4.2
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	4.2
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	4.2
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	4.2
Aspect A3: Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer’s significant impact on the environment and natural resources.	4.1
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	4.1

General Disclosures	Description	Relevant Chapter(s) or Explanation
Social		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	3.1
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	3.2
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.2 and 3.3
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	2.2 and 3.1
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	2.2
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.1
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	2.3
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	5

Directors & Senior Management

Executive Directors

Mr. ZHU Xiaokun, aged 61, 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 30 years of experience in special steel and cutting tools industry. Mr. Zhu graduated from the Economic and Management Department of Jiangsu Open 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 alloy 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. Zhu is the representative of the Thirteenth National People's Congress. Mr. Zhu is the father of the Chief Investment Officer of the Group, Mr. Zhu Zefeng.

Mr. WU Suojun, aged 45, is an Executive Director of the Company and the Chief Executive Officer of the Company. Mr. Wu joined the Group in 1993 as a workshop officer. He is in charge of the purchase, sales, production and operation management of HSS and DS. He is also responsible for the security and environmental works.

Mr. YAN Ronghua, aged 49, is an Executive Director of the Company. He graduated from the Economic and Management Department of the Jiangsu Open 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 53, 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 cutting tools.

Independent Non-Executive Directors

Mr. GAO Xiang, aged 74, 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 47, 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 AMCO United Holding 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. WANG Xuesong, aged 46, joined the Company as an Independent Non-executive Director in 2016. He is a holder of a Bachelor's Degree in Electronic Engineering from the Tsinghua University and a Master's Degree of Business Administration from the Columbia University. Mr. Wang has been the project manager of Sun Microsystems, Inc., responsible for the development of the world's leading fourth and fifth generations of UltraSPARC CPU chips. He has been awarded the second class National Science Progress Award of the People's Republic of China with his development in 32-bit slot in CPU technology. He has over 10 years of management and engineering experience in various industries in Silicon Valley in the United States and in China. Further, Mr. Wang has nearly 20 years of operating and investment experience in the United States and China. He has been a principal of China Renaissance Capital Investment, where he was responsible for private equity investments. He has also been an executive director and a senior investment member of China Everbright Investment and Assets Management Co., Ltd. Mr. Wang was a co-founding partner of Everbright ReinFore in 2013 and is currently a member of the firm's Investment Committee.

Senior Management

Mr. WANG Gang, aged 34, is the Chief Financial Officer of the Group. He graduated with a master's degree from the Royal Institute of Technology, Sweden. He is a member of The Chinese Institute of Certified Public Accountants. Prior to joining the Group in August 2015, he worked in KPMG Hong Kong and KPMG China and was promoted to the position of audit manager of KPMG China. Mr. Wang then joined TG Group as chief accountant in 2014. He was appointed as a director and the financial controller of TG Tech from August 2015 and subsequently resigned from the position of financial controller in TG Tech in January 2017, in preparation for the appointment as the Chief Financial Officer of the Company. Mr. Wang has over 10 years of experience in the fields of finance, auditing, accounting and administration and is familiar with the business and operation of the Group.

Mr. LIAO Jun, aged 52, is the Chief Technology Officer of the Group. He graduated from the College of Materials Science and Engineering of Chongqing University and acquired an Executive MBA from Shanghai Jiao Tong University in 2008. Prior to joining the Company in July 2014 as head of innovation and technology department, he worked as deputy chief of technical section of Shanghai No. 5 Steel Co., Ltd. He then served as deputy head of technical center of China Bao Steel Group and director of its branch steel plant. He has over 30 years of experience in special steel production and technology innovation. Mr. Liao is taking the responsibility of the Company's technology advance and development in order to enhance the product grading, technical specification and quality control.

Mr. ZHU Zefeng, aged 35, is the Chief Investment Officer of the Group. He graduated with advanced diploma in Business Operation Management from the Durham College, Canada. He joined the Company as management trainee in January 2016 to acquire the relevant experience and knowledge of the manufacturing process of the Group's products. He also involved in investigation and investment project on downstream subcontractor. Prior to his joining, he worked for TopTech Tools Manufacturing Inc. as an operation manager, with over 7 years of experience in overlooking and integration of upstream and downstream operation of its special steel business. His prime focus is to execute the Group's future investment strategy, in particular, in the integration of upstream and downstream component of the supply chain of the Group's existing business, as approved by the Board from time to time. Mr. Zhu is the son of the Executive Director and Chairman of the Company, Mr. Zhu Xiaokun.

Mr. JIANG Rongjun, aged 49, is an Executive Director and the General Manager of Jiangsu Tiangong Technology Company Limited ("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 38, is the Financial Controller and Company Secretary of the Company. Mr. Lee joined the Group in July 2015 and has over 15 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.

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 2017, 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.

Corporate governance duties performed by the Board during the year were covered in the below sections of the corporate governance report.

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 developments 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

	Attendance/Number of Board Meetings			
Name of Director	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Zhu Xiaokun *(Chairman)*	7/7	N/A	1/1	3/3
Mr. Wu Suojun *(Chief executive officer)*	7/7	N/A	N/A	N/A
Mr. Jiang Guangqing	7/7	N/A	N/A	N/A
Mr. Yan Ronghua	7/7	N/A	N/A	N/A
Mr. Gao Xiang	7/7	2/2	1/1	3/3
Mr. Lee Cheuk Yin Dannis	7/7	2/2	1/1	3/3
Mr. Wang Xuesong	6/7	2/2	1/1	3/3

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 26 May 2017. Mr. Yan Ronghua acted as the chairman of the AGM. Mr. Zhu Xiaokun did not attend the AGM as he has to attend an overseas business trip.

The attendance records of the Directors at the shareholders' meetings held in the year 2017 are set out below:

	AGM
Executive Directors	
Mr. Zhu Xiaokun *(Chairman)*	–
Mr. Wu Suojun *(Chief executive officer)*	–
Mr. Jiang Guangqing	–
Mr. Yan Ronghua	✓
Independent non-executive Directors	
Mr. Gao Xiang	✓
Mr. Lee Cheuk Yin Dannis	✓
Mr. Wang Xuesong	–

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. Wang Xuesong, the Independent Non-executive Director, was unable to attend the AGM due to other business engagement.

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. Wang Xuesong). Biographical details of the Directors as at the date of this report are set out on pages 30 to 32 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 developments 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 ended 31 December 2017, all Directors have been provided with 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 to refresh their knowledge and to facilitate the discharge of their responsibilities. Each of the Directors has provided to the Company his records of training received during the financial year ended 31 December 2017.

For the financial year ended 31 December 2017, 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. Save as disclosed in the directors & senior management section of this report, there is no relationship (including financial, business, family or other material/relevant relationship(s) among the Directors and in particular, between the Chairman and the Chief Executive Officer.

In 2017, 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 Directors 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.

Each newly appointed Director is provided with induction material on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the business and operations of the Group and that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules, code of conduct and other relevant regulatory compliance requirements.

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 www.tggj.cn and the website of the Stock Exchange 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. Wang Xuesong. 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; considering and proposing to the Board the re-appointment of the Company's external auditors; considering and approving the procedures and guidelines in employing the external auditor to perform non-audit assignments for the Company; receiving and reviewing the internal audit reports from the internal auditor; holding meetings with the external auditors in the absence of management to discuss any audit issues; holding meetings with the internal auditor in private to discuss internal audit issues; approving the internal audit program for the year; carrying 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 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 Listing Rules and the applicable accounting standards and the Company has made appropriate disclosure thereof.

The Audit Committee held two meetings in 2017 and one meeting to date in 2018.

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, internal audit functions 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. The Audit Committee has made recommendations to the Board on the reappointment of the external auditors and their remuneration and terms of engagement and reviewed their independence. 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. Wang Xuesong. Mr. Wang Xuesong 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.

The Remuneration Committee held one meetings in 2017 and one meeting to date in 2018.

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 2017, the remuneration of the senior management is listed as below by band:

Band of remuneration	**No. of persons**
RMB7,000,000 to RMB8,000,000	1
RMB0 to RMB1,000,000	11

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

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. Wang Xuesong. 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 three meetings in 2017 and one meeting to date in 2018. 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 conditions 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 Company has an internal audit function. The Board is responsible for the internal control and risk management systems of the Group and reviewing their effectiveness and adequacy. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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 Group has established an internal control and monitoring department to perform the internal control review on every workshop and department and furnish opinions to the Board in respect of material matters or bring to the attention of the management the existence of any relevant risks to prevent internal control defects. This department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems.

The Board also ensures timely publication of the Group's financial statements and aims to present a clear, balanced and understandable assessment of the Group's performance and position through all its publications and communications to the public and complies with the requirements under the applicable rules and regulations about timely disclosure of inside information.

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 2017. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and, having taken into account of the adequacy of resources, staff qualifications and experience, training programs, internal audit and financial reporting functions, considered that 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 2017, the total remuneration paid or payable to KPMG was RMB2,600,000, including RMB2,500,000 for consolidated financial statements audit service and RMB100,000 for non-audit professional service.

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 and on terms no less exacting than the required standard set out in 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.

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 a 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 an extraordinary meeting of not less than 10 clear business days (pursuant to Listing Rules requirements) and not less than 14 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 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 (pursuant to Listing Rules requirements) and not less than 21 days' notice (pursuant to the articles of association of the Company) 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 was 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 2017.

Principal Place of Business

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

Principal Activities

The principal activities of the Company are the production and sales of DS, HSS, cutting tools 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 2017 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 63 and 64.

The financial position of the Group as at 31 December 2017 is set out in the consolidated statement of financial position of the Group on pages 65 to 66. The financial position of the Company as at 31 December 2017 is set out in note 34 to the financial statement on page 128.

The cash flows of the Group for the year ended 31 December 2017 are set out in the consolidated cash flow statement on page 68.

Results and Appropriations

The Board proposed a final dividend payment of RMB0.0378 per share for the financial year ended 31 December 2017 (2016: RMB0.0100).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB500,000 (2016: RMB600,000).

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 2017, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,169,404,000 (2016: RMB1,272,771,000).

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 in the 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 5 to 16 of this annual report. Particulars of important events affecting the Group that have occurred since the end of the financial year are provided in note 37 to the financial statements.

In addition, further information of the Company's environmental protection policies and compliance with relevant laws and regulations which have a significant impact on the Group are provided in the ESG Report and in 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 17 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. Wang Xuesong

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. Wang Xuesong 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 2017, 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)	Interests of controlled corporations	787,390,000(L)	35.17
	Beneficial owner	3,800,000(L)	0.17
	Beneficial owner(3)	500,000(L)	0.02
			35.36
Wu Suojun	Beneficial owner	800,000(L)	0.04
	Beneficial owner(3)	867,000(L)	0.04
Yan Ronghua	Beneficial owner	500,000(L)	0.02
	Beneficial owner(3)	300,000(L)	0.01
Jiang Guangqing	Beneficial owner	300,000(L)	0.01
	Beneficial owner(3)	300,000(L)	0.01

Notes:

As at 31 December 2017,

(1) Tiangong Holdings Company Limited ("THCL") held 743,458,000 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 743,458,000 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.

(b) Interests in the shares of associated corporations

Name of Director	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Mr. Zhu Xiaokun	THCL	Beneficial owner	44,511(L)	89.02
		Spousal interest [(1)]	5,489(L)	10.98
Mr. Zhu Xiaokun	TG Tech	Beneficial owner	10,000,000(L)[(2)]	2.47

Notes:

(1) Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun held 5,489 shares in THCL. Mr. Zhu Xiaokun is deemed to be interested in such 5,489 shares in THCL.

(2) Mr. Zhu Xiaokun has acquired the shares in TG Tech in the Second Placing.

(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 2017, 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 or debentures of the Company and its associated corporations 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:

(a) Interests in the Company

Substantial shareholders' name	Nature of interest and capacity	Ordinary shares	Approximate attributable interest (%)
Yu Yumei [(1)]	Spousal interest [(2)]	791,690,000(L)	35.36
THCL [(1)]	Beneficial owner	743,458,000(L)	33.49
Zhu Zefeng	Interests of controlled corporation [(3)]	578,352,521(L)	25.83
	Beneficial owner	500,000(L)	0.02
			25.85
Niu Qiu Ping	Spousal interest [(4)]	578,852,521(L)	25.85
Sky Greenfield Investment Limited	Beneficial owner	578,352,523(L)	25.83

(L) Represents long position.

Notes:

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

(2) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".

(3) Zhu Zefeng controlled 100% of Sky Greenfield Investment Limited.

(4) Ms. Niu Qiu Ping is the spouse of Mr. Zhu Zefeng and is deemed to be interested in the shares of the Company held by Mr. Zhu Zefeng.

(b) Interests in the shares of associated corporation

Substantial shareholder's name	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Ms. Yu Yumei	THCL	Beneficial owner	5,489(L)	10.98
		Spousal interest (1)	44,511(L)	89.02
Ms. Yu Yumei	TG Tech	Spousal interest (1)	10,000,000(L)	2.47
Guo Guangchang	TG Tech	Interests of controlled corporations (2)	72,697,000(L)	17.95
南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*)	TG Tech	Interests of controlled corporations (3)	72,697,000(L)	17.95
南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*)	TG Tech	Interests of controlled corporations (4)	72,697,000(L)	17.95

Notes:

(1) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the associated corporations of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of associated corporations of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (b) Interests in the shares of associated corporation".

(2) Guo Guangchang was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of his control over numerous corporations. For information in relation to the controlled corporations, please refer to note 3 of the paragraph headed "Substantial Shareholders' Interests – (a) Interests in the Company".

(3) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations. For information in relation to the controlled corporations, please refer to note 4 of the paragraph headed "Substantial Shareholders' Interests – (a) Interests in the Company".

(4) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations. For information in relation to the controlled corporations, please refer to note 5 of the paragraph headed "Substantial Shareholders' Interests – (a) Interests in the Company".

* For identification purpose only

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 30 to 32.

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 Option Scheme

The Company has a share option scheme (the "2007 Share Option Scheme") which was adopted on 7 July 2007. The 2007 Share Option Scheme expired on 6 July 2017. The new share option scheme (the "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.

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 222,008,000 shares of nominal value USD0.0025 each in the capital of the Company. As at the date of this report, options in respect of 222,008,000 shares may be granted, representing approximately 9.9% 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 24 May 2027.

2007 Share Option Scheme

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 Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275 per share. All the remaining 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 remaining 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.

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 prices of the Company's shares at the date of grant and at the date immediately before the grant were, respectively, HKD0.56 and HKD0.55 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.

The Scheme

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).

At 31 December 2017, 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 2017 was HKD1.17) 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	500,000	–	–	–	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	2,200,000	–	2,200,000	–	–	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	HKD1.07
Mr. Wu Suojun	867,000	–	–	–	867,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	800,000	–	800,000	–	–	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	HKD1.08
Mr. Yan Ronghua	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	500,000	–	500,000	–	–	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	HKD1.07
Mr. Jiang Guangqing	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	300,000	–	300,000	–	–	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	HKD1.08
Employees	20,180,000	–	–	–	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Employees	15,170,000	–	15,170,000	–	–	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	HKD1.06
	41,117,000	–	18,970,000	–	22,147,000					

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).

Permitted indemnity provision

During the year ended 31 December 2017, there was no permitted indemnity provision in force for the benefit of one or more (existing or former) directors of the Company or of its associated companies or such directors' associated companies.

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.

Issue of Shares or Debentures

Save as disclosed in this annual report, during the year ended 31 December 2017, neither the Company nor any of its subsidiaries has issued any shares or debentures.

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.

Defined contribution pension funds

The Group participates in defined contribution pension funds managed by the PRC local government authorities as disclosed in note 8(b) to the financial statements.

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 19% starting from 1 July 2016 (before 1 July 2016: 20%) of the eligible employees' salary rate to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

Forfeited contributions could not be used by the Group to reduce the existing level of contributions.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to major customers and suppliers during the financial year ended 31 December 2017 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer/supplier	22%	16%
Five largest customers/suppliers in aggregate	40%	50%

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.

A majority of the domestic customers were granted credit for a term of 90 days, depending on the sales order volumes and the creditworthiness of individual customers. Beyond the normal credit term, a 90-day extension was also granted to key and credit-worthy customers subject to specific approval from management.

Overseas customers were generally granted Letter of Credit ("L/C") of 90 days, and a longer term-up L/C up to 120 days was allowed to customers with steady and high sales volumes.

The Group accepted bills from customers as settlement of trade receivables. The maturity period of bills ranges from three to twelve months.

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 (i) the sales of goods to controlling shareholder family member company and (ii) 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 2017, the Group pledged certain bank deposits amounting to approximately RMB241,380,000 (31 December 2016: RMB180,180,000). The Group also pledged certain trade receivables amounting to approximately RMB123,200,000 (31 December 2016: RMB147,748,000) and other financial assets amounting to approximately RMB73,500,000 (31 December 2016: RMB96,300,000).

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 135. 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 will retire and, being eligible, will 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, 15 March 2018

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

Opinion

We have audited the consolidated financial statements of Tiangong International Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 63 to 134, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to note 5 to the consolidated financial statements and the accounting policies on page 80.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of high speed steel, die steel, high speed steel cutting tools and titanium-related products to distributors and manufacturers and the trading of billet steel. Contracts for different products with different types of customers have a variety of different terms relating to goods acceptance and the right of return. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the appropriate timing of revenue recognition. We identified the recognition of revenue as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue is manipulated to meet financial expectations or targets and because the Group has a large number of customers with which it has different terms of trade, which increases the risk of error in the timing of revenue recognition.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included goods delivery notes and goods acceptance notes, to assess whether the revenue had been recognised in accordance with the terms of the sales contracts and in the appropriate financial period; • inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and which were considered to be material or met other specific risk-based criteria; • confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2017 directly with customers and inspecting underlying documentation relating to reconciling differences between the transactions confirmed by customers and the Group's accounting records to assess whether the related revenue had been recognised in the correct financial period; and • inquiring of management as to the reasons for sales credits issued subsequent to the year end and inspecting relevant underlying documentation in order to assess whether the sales credits were completely and accurately accounted for in the correct financial period.

Recoverability of trade receivables

Refer to note 21 to the consolidated financial statements and the accounting policies on page 77.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2017, the Group's gross trade receivables totalled RMB1,020 million, against which a provision for doubtful debts of RMB38 million was recorded. The Group's provision for doubtful debts is based on management's estimate of the expected trade receivables bad debt losses to be incurred, which is estimated by taking into account the credit history of the Group's customers and current market and customer-specific conditions, all of which involve a significant degree of management judgement. The Group's provision for doubtful debts includes a specific element based on individual debtors and a collective element based on historical experience adjusted for certain current factors, eg. latest operating status, liquidity risks, etc.. We identified the recoverability of trade receivables as a key audit matter because the Group has significant trade receivables and because due to the challenging market conditions in the steel industry in Mainland China there is an increased risk of downstream customers experiencing liquidity issues and a consequential risk in respect of the recoverability of the Group's trade receivables.	Our audit procedures to assess the recoverability of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and making provisions for doubtful debts; • assessing the classification of trade receivables in the trade receivables ageing report by comparison with sales invoices and other relevant underlying documentation on a sample basis; • obtaining an understanding of the basis of management's judgement about the recoverability of individual material trade receivables balances and evaluating the provision for doubtful debts made by management for these individual trade receivables balances with reference to correspondence with the debtors, agreed settlement plans, the debtors' financial condition, the industry in which the debtors are operating, the ageing of overdue balances and historical and post year-end payment records; • assessing the assumptions and estimates made by the management for the provision for doubtful debts calculated based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates and recalculating the Group's provision with reference to the Group's policy for collective assessment; and • comparing cash receipts from customers subsequent to the financial year end relating to trade receivable balances at 31 December 2017 with bank-in slips and other relevant underlying documentation.

Assessing potential impairment of property, plant and equipment

Refer to note 13 to the consolidated financial statements and the accounting policies on page 76.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2017, the Group's market capitalisation was significantly lower than the Group's net asset value as reflected in the consolidated financial statements. Management considered, on the basis of the above, that an indicator of potential impairment of the Group's property, plant and equipment existed and consequently management performed impairment assessments of the Group's property, plant and equipment as at 31 December 2017. Management assessed the recoverable amounts of the relevant cash-generating units ("CGUs") to which the property, plant and equipment had been allocated at the higher of value in use and fair value less costs of disposal of the relevant assets. Having determined that the fair value of the Group's property, plant and equipment was not readily available, management performed impairment assessments based on discounted cash flow forecasts and concluded that no provision for impairment was necessary as at 31 December 2017. The preparation of discounted cash flow forecasts involves a significant degree of management judgement, in particular in forecasting future revenue, future gross profit margins and cost growth rates, determining the discount rate to be applied and estimating the recoverable amounts of the relevant CGUs. We identified assessing potential impairment of property, plant and equipment as a key audit matter because determining the level of impairment, if any, involves a significant degree of management judgment, which can be inherently uncertain and may be subject to management bias.	Our audit procedures to assess potential impairment of property, plant and equipment included the following: • evaluating the methodology adopted by management in its preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards; • evaluating management's identification of CGUs and the allocation of property, plant and equipment and other assets to each CGU with reference to the requirements of the prevailing accounting standards; • comparing the most significant inputs used in the discounted cash flow forecasts, including future revenue and future gross profit margins, with the historical performance of each CGU, management's forecasts, details in the financial budgets approved by management and available industry reports; • evaluating the discount rate adopted by management in the discounted cashflow forecasts by benchmarking against other comparable companies in the same industry; • comparing the forecast revenue and forecast operating costs included in discounted cashflow forecasts prepared in the prior year with the current year's performance of each CGU to assess how accurate the prior year's discounted cashflow forecasts were and making enquiries of management as to the reasons for any significant variations identified; and • performing sensitivity analyses of the key assumptions, including the discount rate and revenue growth rates, and evaluating the resulting impact on the conclusion of the impairment assessments and considering whether there was any indication of management bias in determination of the assumptions.

Valuation of inventories

Refer to note 20 to the consolidated financial statements and the accounting policies on page 77.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2017, the Group's gross inventories totalled RMB1,911 million, against which provisions for inventories of RMB14 million were recorded. The Group's inventories are valued at the lower of cost and net realisable value. The Group's provisions for inventories to write down the cost of inventories to their net realisable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's steel products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale. The selling prices of the Group's special steel products are subject to market price volatility of the main raw materials, which include steel and alloys. Certain steel products are produced to meet the specific needs of downstream customers, the demand for which may change significantly from time to time. We identified the valuation of inventories as a key audit matter because of the significant management judgment involved in assessing the level of provisions for inventories, particularly in respect of slow moving inventories and inventories where the net realisable value may be less than the recorded cost.	Our audit procedures to assess the valuation of inventories included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over making provisions for inventories; • assessing the assumptions and estimates made by management in making provisions for inventories by performing a retrospective review of the historical accuracy of these estimates, discussing any significant variances with management and considering the impact of these variances on the current year's assumptions and estimates; • evaluating whether items were correctly categorised in the finished goods inventory ageing report by comparison with production records, on a sample basis; • recalculating the Group's inventory provision with reference to the sales prices achieved after the year end date, where available, and the latest market prices for the Group's products; • comparing year end inventory levels of individual products, on a sample basis, with procurement plans agreed with customers in order to assess the residual risk of the inventories' realisability; and • inspecting the inventory ageing report to identify any slow moving and obsolete inventory items and critically assessing whether appropriate provisions had been established for slow moving and obsolete items, for which there has been a lack of recent sales transactions.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS issued by the 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Ting Yuen.

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

15 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Revenue	5	**3,898,443**	3,376,134
Cost of sales		**(3,399,980)**	(3,003,942)
Gross profit		**498,463**	372,192
Other income	6	**64,614**	76,299
Distribution expenses		**(85,800)**	(66,264)
Administrative expenses		**(140,357)**	(142,918)
Other operating expenses	7	**(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	8(a)	**(112,410)**	(103,299)
Share of (losses)/profits of associates	17	**(4,805)**	7,751
Share of profits/(losses) of joint ventures	18	**602**	(551)
Profit before taxation	8	**218,097**	130,916
Income tax	9	**(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)*	12		
Basic		**0.076**	0.050
Diluted		**0.076**	0.050

The notes on pages 69 to 134 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 2017
(Expressed in Renminbi)

	2017 RMB'000	2016 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

The notes on pages 69 to 134 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	13	3,520,344	3,444,164
Lease prepayments	14	70,875	72,624
Goodwill	15	21,959	21,959
Interest in associates	17	49,372	46,484
Interest in joint ventures	18	26,263	25,343
Other financial assets	19	88,900	96,300
Deferred tax assets	29(b)	23,954	30,146
		3,801,667	3,737,020
Current assets			
Inventories	20	1,896,864	1,901,775
Trade and other receivables	21	2,044,171	1,577,383
Pledged deposits	22	241,380	180,180
Time deposits	23	500,000	640,000
Cash and cash equivalents	24	219,798	259,546
		4,902,213	4,558,884
Current liabilities			
Interest-bearing borrowings	25	2,170,279	2,678,912
Trade and other payables	26	1,302,982	1,145,129
Current taxation	29(a)	4,164	1,560
Deferred income	27	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
Non-current liabilities			
Interest-bearing borrowings	25	823,013	210,000
Deferred income	27	37,777	43,876
Deferred tax liabilities	29(c)	57,201	55,153
		917,991	309,029
Net assets		4,302,965	4,155,434

The notes on pages 69 to 134 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	30(a)/(c)	**40,477**	40,167
Reserves	30(d)	**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

Approved and authorised for issue by the board of directors on 15 March 2018.

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

The notes on pages 69 to 134 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	Share capital RMB'000 (note 30(c)(i))	Share premium RMB'000 (note 30(d)(i))	Capital redemption reserve RMB'000 (note 30(d)(i))	Capital reserve RMB'000 (note 30(d)(ii))	Merger reserve RMB'000 (note 30(d)(iii))	Exchange reserve RMB'000 (note 30(d)(iv))	Fair value reserves RMB'000 (note 30(d)(v))	PRC statutory reserve RMB'000 (note 30(d)(vi))	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company										
Balance at 1 January 2017		**40,167**	**1,590,760**	**492**	**72,848**	**91,925**	**(61,901)**	**73,355**	**544,538**	**1,665,531**	**137,719**	**4,155,434**
Changes in equity for 2017												
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**169,099**	**5,602**	**174,701**
Other comprehensive income		**-**	**-**	**-**	**-**	**-**	**4,825**	**(19,380)**	**-**	**-**	**-**	**(14,555)**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**4,825**	**(19,380)**	**-**	**169,099**	**5,602**	**160,146**
Dividends approved in respect of the previous year	30 (b)(ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22,130)**	**-**	**(22,130)**
Transfer to reserve	30 (c)(ii)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,683**	**(21,683)**	**-**	**-**
Exercise of share options	30 (c)(ii)	**310**	**11,458**	**-**	**(2,253)**	**-**	**-**	**-**	**-**	**-**	**-**	**9,515**
Balance at 31 December 2017		**40,477**	**1,602,218**	**492**	**70,595**	**91,925**	**(57,076)**	**53,975**	**566,221**	**1,790,817**	**143,321**	**4,302,965**

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

The notes on pages 69 to 134 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Cash generated from operations	24(b)	**244,177**	516,931
PRC taxes paid		**(27,790)**	(21,008)
Hong Kong Profits Tax paid		**(1,381)**	(1,155)
Net cash generated from operating activities		**215,006**	494,768
Investing activities			
Payment for purchase of property, plant and equipment		**(299,586)**	(392,961)
Payment for purchase of other investments		**(15,400)**	–
Proceeds from disposal of property, plant and equipment		**3,105**	10,604
Net proceeds from maturity/(payment to purchase) of time deposits		**140,000**	(240,000)
Net (payment for purchase)/proceeds from maturity of pledged deposits		**(59,420)**	265,209
Interest received	8(a)	**5,795**	9,398
Dividends received from an associate		**–**	1,738
Proceeds from disposal of a joint venture		**–**	656
Proceeds from disposal of trading securities		**4,505**	–
Payment for trading securities		**(3,960)**	–
Payment for capital injection in associates		**(6,500)**	(4,587)
Payment for capital injection in joint ventures		**–**	(2,670)
Net cash used in investing activities		**(231,461)**	(352,613)
Financing activities			
Proceeds from interest-bearing borrowings		**5,042,507**	4,902,796
Repayment of interest-bearing borrowings		**(4,938,127)**	(5,080,758)
Interest paid		**(118,407)**	(118,925)
Dividends paid to equity shareholders of the Company	30(b)(ii)	**(22,130)**	(14,912)
Proceeds from partial disposal to non-controlling interests		**–**	130,097
Proceeds from exercise of share options		**9,515**	–
Net cash used in financing activities		**(26,642)**	(181,702)
Net decrease in cash and cash equivalents		**(43,097)**	(39,547)
Cash and cash equivalents at 1 January		**259,546**	323,486
Effect of foreign exchange rate changes		**3,349**	(24,393)
Cash and cash equivalents at 31 December		**219,798**	259,546

The notes on pages 69 to 134 form part of these financial statements.

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 2017 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 set out 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 note 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.

(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.

3 Significant accounting policies (continued)

(f) Leased assets (continued)

(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.

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.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

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

- 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.

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.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– intangible assets;

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

– goodwill; and

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

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *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.

3 Significant accounting policies (continued)

(g) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

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

(h) Inventories

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

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

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

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

(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.

3 Significant accounting policies (continued)

(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).

(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 recognised 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.

3 Significant accounting policies (continued)

(n) Income tax (continued)

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.

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.

3 Significant accounting policies (continued)

(o) Provisions and contingent liabilities

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

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

(p) Revenue recognition

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

(i) Sales of goods

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

(ii) Dividends

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

(iii) Interest income

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

(iv) Government grants

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

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, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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

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

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

(r) Borrowing costs

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

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

(s) Related parties

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

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

   (ii) has significant influence over the Group; or

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

3 Significant accounting policies (continued)

(s) Related parties (continued)

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

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

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

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

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

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

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

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

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

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

(t) Segment reporting

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

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

4 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 24(c) 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.

5 Revenue and segment reporting

Revenue represents mainly the sales value of high alloy steel, (including die steel ("DS") and high speed steel ("HSS")), cutting tools, 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.

5 Revenue and segment reporting (continued)

(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.

5 Revenue and segment reporting (continued)

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

	Year ended and as at 31 December 2017					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Revenue from external customers	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 RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Revenue from external customers	1,262,376	395,239	527,821	234,295	956,403	3,376,134
Inter-segment revenue	–	341,150	–	–	–	341,150
Reportable segment revenue	1,262,376	736,389	527,821	234,295	956,403	3,717,284
Reportable segment profit (adjusted EBIT)	156,592	64,934	49,567	32,965	1,870	305,928
Reportable segment assets	3,040,930	2,136,121	1,328,101	436,820	11	6,941,983
Reportable segment liabilities	591,689	342,342	178,869	45,026	–	1,157,926

5 Revenue and segment reporting (continued)

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

	2017 RMB'000	2016 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 RMB'000	2016 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 RMB'000	2016 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

5 Revenue and segment reporting (continued)

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

	2017 RMB'000	2016 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 RMB'000	2016 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. In 2017, revenues from trading of goods to this customer amounted to approximately RMB841,500,000 (2016: RMB889,279,000) and arose in the PRC region.

6 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)	21(b)	**–**	39,308
Others		**1,583**	978
		64,614	76,299

Note:

(i) The subsidiaries of the Group, including Jiangsu Tiangong Tools Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe") and Jiangsu Tiangong Technology Company Limited ("TG Tech"), located in the PRC, collectively received unconditional grants amounting to 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 (see note 27).

(ii) The Group received dividends totalling RMB1,780,000 (2016: Nil) from a listed equity investment (see note 19).

7 Other operating expenses

	Note	2017 RMB'000	2016 RMB'000
Impairment loss on trade receivables (net)	21(b)	**1,049**	–
Net loss on disposal of property, plant and equipment		**–**	675
Net foreign exchange losses		**–**	11,619
Others		**1,161**	–
		2,210	12,294

8 Profit before taxation

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

(a) Net finance costs

	2017 RMB'000	2016 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 RMB'000	2016 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 (note 28)	**–**	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.

8 Profit before taxation (continued)

(c) Other items

	Note	2017 RMB'000	2016 RMB'000
Depreciation of property, plant and equipment	13	**220,167**	211,877
Amortisation of lease prepayments	14	**1,749**	1,748
Impairment losses on trade and other receivables recognised/(reversed)	21(b)	**1,049**	(39,308)
Auditor's remuneration			
– audit services		**2,500**	2,500
– other services		**100**	–
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 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:

	2017 RMB'000	2016 RMB'000
Current tax		
Provision for PRC income tax (note 29(a))	**31,775**	24,645
Provision for Hong Kong Profits Tax (note 29(a))	**–**	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%).

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

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

(ii) The 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 RMB'000	2016 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 differences	**2,112**	(2,112)
(Over)/under-provision in respect of prior year	**(8,207)**	1,030
Actual tax expense	**43,396**	14,920

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 2017

	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	–	169	14	7,500	–	7,683
Wu Suojun	–	175	14	159	–	348
Yan Ronghua	–	149	14	101	–	264
Jiang Guangqing	–	109	14	97	–	220
Independent non-executive directors						
Wang Xuesong	80	–	–	–	–	80
Gao Xiang	36	–	–	–	–	36
Lee Cheuk Yin, Dannis	80	–	–	–	–	80
Total	196	602	56	7,857	–	8,711

10 Directors' emoluments (continued)

Year ended 31 December 2016

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

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 (2016: three) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2016: two) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,387**	1,028
Share-based payments	**–**	111
Bonuses	**121**	286
Contributions to retirement benefit schemes	**42**	22
	1,550	1,447

The emoluments of the three (2016: 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 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 (note 28)	**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) share 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 warrents 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 2016	892,126	2,939,424	9,873	40,280	291,565	4,173,268
Additions	242	64,494	1,982	742	356,318	423,778
Transfer from construction in process	81,416	24,499	–	–	(105,915)	–
Disposals	(7,476)	(28,145)	(668)	(413)	–	(36,702)
Balance at 31 December 2016	966,308	3,000,272	11,187	40,609	541,968	4,560,344
Additions	1,098	53,394	4,096	7,581	232,787	298,956
Transfer from construction in process	2,150	206,584	–	–	(208,734)	–
Disposals	–	(769)	(4,523)	(2)	–	(5,294)
Balance at 31 December 2017	969,556	3,259,481	10,760	48,188	566,021	4,854,006
Accumulated depreciation:						
Balance at 1 January 2016	(206,515)	(687,043)	(3,755)	(32,413)	–	(929,726)
Charge for the year	(40,692)	(165,777)	(1,218)	(4,190)	–	(211,877)
Written back on disposals	1,918	23,038	74	393	–	25,423
Balance at 31 December 2016	(245,289)	(829,782)	(4,899)	(36,210)	–	(1,116,180)
Charge for the year	(39,743)	(176,372)	(1,179)	(2,873)	–	(220,167)
Written back on disposals	–	322	2,361	2	–	2,685
Balance at 31 December 2017	(285,032)	(1,005,832)	(3,717)	(39,081)	–	(1,333,662)
Net book value:						
At 31 December 2017	684,524	2,253,649	7,043	9,107	566,021	3,520,344
At 31 December 2016	721,019	2,170,490	6,288	4,399	541,968	3,444,164

(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 2017, 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 2017 (see note 33(b)).

14 Lease prepayments

	RMB'000
Cost:	
At 1 January 2016, 31 December 2016 and 31 December 2017	89,647
Accumulated amortisation:	
At 1 January 2016	(15,275)
Charge for the year	(1,748)
At 31 December 2016	(17,023)
Charge for the year	(1,749)
At 31 December 2017	(18,772)
Net book value:	
At 31 December 2017	70,875
At 31 December 2016	72,624

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

15 Goodwill

	2017 RMB'000	2016 RMB'000
Cost:		
Balance at 1 January and 31 December	**21,959**	21,959
Accumulated impairment losses:		
Balance at 31 December	**–**	–
Carrying amount:		
At 31 December	**21,959**	21,959

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

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

	2017 RMB'000	2016 RMB'000
DS	**21,959**	21,959

The recoverable amounts of the CGU was determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rate, growth rate of revenue and gross margin. The Group prepared cash flow forecasts derived from the two-year financial budgets and extrapolated cash flows for the following thirteen years based on an estimated growth rate of revenue of 5% – 15% (2016: 4% – 10%), a pre-tax discount rate of 11.6% (2016: 9.34%) and a gross margin of 15% – 20% (2016: 10% – 15%). The growth rate used does not exceed the long-term average growth rate for the business in which the CGU operates.

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

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

(Expressed in Renminbi unless otherwise indicated)

16 Interests in subsidiaries

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

Name of company	Note	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%	RMB2,010,000,000/ RMB2,010,000,000	Manufacture and sale of high speed steel and cutting tools
TG Aihe	(ii)	The PRC, 5 December 2003	–	100%	RMB723,038,000/ RMB723,038,000	Manufacture and sale of die steel
Danyang Tianfa Forging Company Limited ("Tianfa Forging")	(ii)	The PRC, 11 October 2000	–	100%	USD18,600,000/ USD18,600,000	Precision forging and sale of high speed steel
China Tiangong (Hong Kong) Company Limited ("CTCL (HK)")		Hong Kong, 13 June 2008	–	100%	HKD1/HKD1	Investment holding
TG Tech	(iii)	The PRC, 27 January 2010	–	74.03%	RMB405,000,000/ RMB405,000,000	Manufacture and sale of titanium-related products
TG Development		Hong Kong, 15 February 2012	–	100%	USD5,500,000/ USD5,500,000	Trading of alloy steel and cutting tools
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 and steel, products
Jiangsu Tiangong International Trading Company Limited ("International Trading")	(iii)	The PRC, 6 March 2014	–	100%	RMB20,000,000/ RMB50,000,000	Trading of goods
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 high speed steel, and die steel related products
Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools")	(iv)	The PRC, 25 January 2016	–	100%	HKD-/ HKD10,000,000	Research and development, manufactory and sale of cutting tools related products
Danyang Taifeng Precision Machinery Tools Company Limited ("Taifeng Precision")	(iii)	The PRC, 5 February 2016	–	100%	RMB-/ RMB8,000,000	Research and development, manufacture, distribution and sale of cutting tools related products
Jiangsu Tiangong Investment Management Company Limited ("TG Investment")	(v)	The PRC, 9 March 2017	–	100%	HKD15,000,000/ HKD35,000,000	Investment management and advisory related services

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, TG New Material and Taifeng Precision are incorporated in the PRC as domestic companies.

(iv) Precision Tools (formerly known as Danyang Tianjia Tools Technology Company Limited) is a wholly foreign-owned enterprise incorporated in the PRC.

(v) On 9 March 2017, CTCL (HK) established a wholly owned subsidiary, TG Investment, which is engaged in investment management and advisory related services. As at 31 December 2017, CTCL (HK) had injected capital totaling HKD15,000,000.

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

	2017 **RMB'000**	2016 RMB'000
NCI percentage	**25.97%**	25.97%
Current assets	**419,419**	400,023
Non-current assets	**185,679**	198,011
Current liabilities	**(29,446)**	(37,398)
Non-current liabilities	**(23,777)**	(30,334)
Net assets	**551,875**	530,302
Carrying amount of NCI	**143,321**	137,719
Revenue	**188,867**	257,848
Profit for the year	**21,573**	28,598
Total comprehensive income	**21,573**	28,598
Profit allocated to NCI	**5,602**	5,425
Dividend paid to NCI	**–**	–
Cash flows from operating activities	**(39,494)**	(37,664)
Cash flows from investing activities	**(2,852)**	(7,133)
Cash flows from financing activities	**–**	129,698

(Expressed in Renminbi unless otherwise indicated)

17 Interest in associates

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

Name of associate	Note	Form of business structure	Place of incorporation and business	Issued and fully paid-up/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principle activity
Jiangsu Tianrun Huafa Logistics Company Limited ("Tianrun Huafa")	(i)	Incorporated	The PRC	RMB5,000,000/ RMB5,000,000	40%	–	40%	Logistics and freight
Xinzhenggong Company Limited ("XZG")	(ii)	Incorporated	Taiwan	TWD200,000,000/ TWD200,000,000	25%	–	25%	Sale of special steel related products
SB Specialty Metals Holdings LLC ("SBSMH")	(iii)	Incorporated	United States of America	USD8,625,000/ USD8,625,000	19.8%	19.8%	–	Sale of special steel related products
Fusion TG Canada Inc ("TGC")	(iv)	Incorporated	Canada	CAD6,000,000/ CAD6,000,000	10%	10%	–	Sale of special steel related products
Jiangsu Ningxing Tiangong Mould technology Company Limited ("JS NXTG")	(v)	Incorporated	The PRC	RMB10,000,000 RMB10,000,000	30%	–	30%	Sale of special steel related products
Shenzhen 51 Mocai Technology Company Limited ("51 Mocai")	(vi)	Incorporated	The PRC	RMB50,000,000/ RMB50,000,000	10%	–	10%	Sale of special steel related products
Aceros T&C Company Limited ("ATC")	(vii)	Incorporated	Mexico	–/ CUP100,000	15%	–	15%	Sale of special steel related products

Note:

(i) Tianrun Huafa is a transportation agency of the Group in the PRC.

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

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

(iv) TGC is the sole distributor of the Group's products in Canada.

(v) JS NXTG, a distributor of special steel products in the PRC, enables the Group to increase its exposure to the East of China. During 2017, TG Aihe injected capital totaling RMB1,500,000 and fully paid up the registered capital.

(vi) 51 Mocai, a distributor of special steel products in the PRC, enables the Group to increase its exposure to the South of China. During 2017, TG Aihe injected capital totaling RMB5,000,000 and fully paid up the registered capital. The Group has a right to appoint one director to the Board of 51 Mocai in accordance with the investment agreement, therefore the Directors consider that 51 Mocai is an associate of the Group.

(vii) As at 22 November 2016, TG Tools formed an associate, ATC, with Citma Metals Co. Ltd, in Mexico. The associate is principally engaged in sale of special steel related products. As at 31 December 2017, TG Tools had not contributed any capital into ATC. All inventories of ATC are supplied by the Group. The Directors consider that the Group can exercise significant influence over ATC and therefore ATC is accounted for as an associate of the Group.

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:

	2017 RMB'000	2016 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**49,372**	46,484
Aggregate amounts of the Group's share of those associates'		
– (loss)/profit from continuing operations	**(4,805)**	7,751
– Other comprehensive income	**1,193**	(2,619)
Total comprehensive income	**(3,612)**	5,132

18 Interest in joint ventures

Details of the Group's interest in joint ventures as at 31 December 2017, which are accounted for using the equity method in the consolidated financial statements, are set out below:

Name of joint venture	Note	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)(vi)	Incorporated	The Republic of Korea	1,000,000 shares of USD1 each	70%	–	70%	Sale of special steel related products
TGK Special Steel PVT Limited ("TGK")	(ii)	Incorporated	India	2,000,000 shares of USD1 each	50%	–	50%	Sale of special steel related products
Czechtools and Materials S.R.O. ("CTM")	(iii)	Incorporated	Czech Republic	26,140,000 shares of CZK 1 each	50%	–	50%	Sale of special steel related products
Five Star Special Steel Europe S.R.L ("FSS")	(iv)(vi)	Incorporated	Italy	100,000 shares of EUR 1 each	60%	–	60%	Sale of special steel related products
TG Middle East Celik San Ltd. ("TGME")	(v)	Incorporated	Turkey	1,000,000 shares of EUR 1 each	50%	–	50%	Sale of special steel related products

18 Interest in joint ventures (continued)

Note:

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

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

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

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

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

(vi) According to TGT's and FSS's joint venture agreement, no single shareholder is in a position to control the shareholders' meeting nor no single director appointed by either shareholder is in a position to control the Board of Directors. Therefore, although the Group holds more than 50% of equity interests in TGT and FSS, management of the Group consider that the Group does not have the ability to use its power over TGT and FSS to affect its returns through its involvement and deem them to be joint ventures of the Group rather than subsidiaries.

Aggregate information of joint ventures that are not individually material:

	2017 **RMB'000**	2016 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**26,263**	25,343
Aggregate amount of the Group's share of those joint ventures'		
– Profit/(loss) from continuing operations	**602**	(551)
– Other comprehensive income	**318**	(630)
Total comprehensive income	**920**	(1,181)

19 Other financial assets

	Note	**2017** **RMB'000**	2016 RMB'000
Available-for-sale equity securities			
– listed in the PRC, at fair value	31(e)/(i)	**73,500**	96,300
– unlisted equity securities, at cost	(ii)	**15,400**	–
		88,900	96,300

Note:

(i) As at 31 December 2017, available-for-sale securities were stated at fair values due to listed on the Shanghai Stock Exchange. Fair value measurement of available-for-sale securities is disclosed in note 31. Available-for-sale securities of RMB73,500,000 (2016: RMB96,300,000) are pledged to a bank as security for the Group's bank loans as set out in note 25.

(ii) The unlisted equity securities at cost represent investments in an unlisted equity security and a private investment fund in the PRC. There are no quoted market prices in an active market for these investments. Quoted prices in active markets for similar investments or observable market data as significant inputs for valuation techniques are also not available. Therefore, the Directors consider that these investments are stated at cost less impairment, if any, in the consolidated statement of financial position.

20 Inventories

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

	2017 RMB'000	2016 RMB'000
Raw materials	**61,493**	35,044
Work in progress	**768,618**	909,531
Finished goods	**1,066,753**	957,200
	1,896,864	1,901,775

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

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**3,416,784**	2,988,899
(Reversal)/provision for write-down of inventories	**(16,804)**	15,043
	3,399,980	3,003,942

21 Trade and other receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	**1,019,779**	988,696
Bills receivables	**726,603**	416,596
Less: impairment losses (note 21(b))	**(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.

21 Trade and other receivables (continued)

Trade receivables of RMB123,200,000 (2016: RMB147,748,000) have been pledged to a bank as security for the Group's bank loans as disclosed in note 25.

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

(a) Ageing analysis

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

	2017 RMB'000	2016 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. Further details on the Group's credit policy are set out in note 31.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written-off against trade and bills receivables directly (see note 3(g)(i)).

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

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

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:

	2017 RMB'000	2016 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.

22 Pledged deposits

As at 31 December 2017, bank deposits of RMB241,380,000 (2016: RMB180,180,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities (as described in note 25). The pledge in respect of the bank deposits will be released upon the settlement of the related bills by the Group and the termination of related banking facilities.

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

23 Time deposits

As at 31 December 2017, time deposits of RMB500,000,000 (2016: RMB640,000,000) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

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

24 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

As at 31 December 2016 and 2017, 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.

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	**219,798**	259,546

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

	Note	2017 RMB'000	2016 RMB'000
Profit before taxation		**218,097**	130,916
Adjustments for:			
Depreciation	8(c)	**220,167**	211,877
Amortisation of lease prepayments	8(c)	**1,749**	1,748
Interest income	8(a)	**(5,795)**	(9,398)
Interest on bank loans	8(a)	**118,205**	112,697
(Gains)/Losses on disposal of property, plant and equipment	6	**(496)**	675
Dividends received from listed securities	6	**(1,780)**	–
Disposal gains from trading securities	6	**(545)**	–
Impairment loss provided/(reversed) for trade and non-trade receivables	8(c)	**1,049**	(39,308)
Share of losses/(profits) of associates	17	**4,805**	(7,751)
Share of (profits)/losses of joint ventures	18	**(602)**	551
Equity-settled share-based payment expenses	8(b)	**–**	2,253
Operating profit before changes in working capital		**554,854**	404,260
Change in inventories		**4,911**	(15,132)
Change in trade and other receivables		**(469,837)**	354,213
Change in trade and other payables		**160,689**	(226,796)
Change in deferred income		**(6,440)**	386
Net cash generated from operations		**244,177**	516,931

24 Cash and cash equivalents (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000
At 1 January 2017	2,888,912
Proceeds from interest-bearing borrowings	5,042,507
Repayment of interest-bearing borrowings	(4,938,127)
Changes from financing cash flows	104,380
At 31 December 2017	2,993,292

25 Interest-bearing borrowings

	Note	2017 RMB'000	2016 RMB'000
Current			
Secured bank loans	(i)	**291,990**	263,288
Unsecured bank loans	(ii)	**1,506,547**	1,753,755
Current portion of non-current secured bank loans		**46,400**	–
Current portion of non-current unsecured bank loans		**325,342**	661,869
		2,170,279	2,678,912
Non-current			
Secured bank loans	(iii)	**46,400**	60,000
Unsecured bank loans	(iv)	**1,148,355**	811,869
Less: Current portion of non-current secured bank loans		**(46,400)**	–
Current portion of non-current unsecured bank loans		**(325,342)**	(661,869)
		823,013	210,000
		2,993,292	2,888,912

25 Interest-bearing borrowings (continued)

Note:

(i) Current secured bank loans were pledged against certain trade receivables, sales contracts and deposits at interest rates ranging from 0.90% to 3.50% (2016: 0.70% to 3.60%) per annum.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 2.00% to 5.22% (2016: 1.00% to 5.22%) per annum, and were all repayable within one year.

(iii) Non-current secured bank loans were pledged against equity securities at interest rate of 5.5% (2016: 5.5%) per annum.

(iv) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 5.13% (2016: 2.34% to 5.75%) per annum.

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

	2017 RMB'000	2016 RMB'000
Within 1 year	**371,742**	661,869
Over 1 year but less than 2 years	**790,342**	210,000
Over 2 years but less than 3 years	**32,671**	–
	1,194,755	871,869

As at 31 December 2016 and 2017, the Group's banking facility with one bank is subject to the fulfilment of a covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. Further details of the Group's management of liquidity risk are set out in note 31.

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

	2017 RMB'000	2016 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

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

26 Trade and other payables (continued)

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

	2017 RMB'000	2016 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

27 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. During 2017, the Group did not receive any conditional government grants (2016: RMB6,000,000) to support capital investments of the Group. As at 31 December 2017, the carrying amount of deferred income in respect of government grants after amortisation (note 6 (i)) amounted to RMB43,276,000 (2016: RMB49,716,000) of which RMB37,777,000 (2016: RMB43,876,000) was classified as non-current deferred income.

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.

The share option scheme adopted in 2007 expired on 6 July 2007. New share option scheme of the Group has been approved by annual general meeting on 06 May 2017.

(Expressed in Renminbi unless otherwise indicated)

28 Equity settled share-based transactions (continued)

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

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 18 August 2014	1,967,000	Immediately on 19 August 2014	5 years and expires at close of business on 18 August 2019
Options granted to employees:			
– on 18 August 2014	20,180,000	Immediately on 19 August 2014	5 years and expires at close of business on 18 August 2019
Total share options granted	22,147,000		

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

	Note	**2017 Weighted average exercise price**	**2017 Number of options**	2016 Weighted average exercise price	2016 Number of options
Outstanding at the beginning of the year		**HKD1.236**	**41,117,000**	HKD1.925	34,284,000
Granted during the year	30(c)(ii)	**–**	**–**	HKD0.600	18,970,000
Forfeited during the year		**–**	**–**	HKD2.500	(9,057,000)
		–	**–**	HKD1.275	(3,080,000)
Exercised during the year	30(c)(ii)	**HKD0.600**	**(18,970,000)**	–	–
Outstanding at the end of the year		**HKD1.780**	**22,147,000**	HKD1.236	41,117,000
Exercisable at the end of the year		**HKD1.780**	**22,147,000**	HKD1.780	22,147,000

The weighted average share price at the date of exercise for share options exercised during the year was HKD0.600 (2016: not applicable).

The options outstanding and exercisable as at 31 December 2017 had an exercise price of HKD1.780 (2016: HKD1.780) and average remaining contractual life of 1.66 years (2016: 1.90 years).

28 Equity settled share-based transactions (continued)

(c) Fair values of share options and assumptions:

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

	Granted on 18 August 2014
Fair value at grant date	HKD0.5914 per share option
Share price	HKD1.78 per share
Exercise price	HKD1.78 per share
Expected volatility	48.17%
Option life	5 years
Expected dividend yield	3.04%
Risk-free interest rate (based on Hong Kong Government Bond)	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:

	2017 RMB'000	2016 RMB'000
At the beginning of the year	**1,560**	(3,192)
Provision for PRC income tax for the year	**31,775**	24,645
Provision for Hong Kong Profits Tax for the year	**–**	2,270
Hong Kong Profits Tax paid	**(1,410)**	(3,741)
PRC income tax paid	**(27,761)**	(18,422)
At the end of the year	**4,164**	1,560

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

(b) Deferred tax assets recognised

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

Deferred tax arising from:	Deductible tax losses RMB'000	Unrealised profits RMB'000	Provision for doubtful debts RMB'000	Write-down of inventories RMB'000	Depreciation differences RMB'000	Total RMB'000
At 1 January 2016	3,714	2,479	11,494	2,402	–	20,089
Credited/(charged) to profit or loss	11,163	422	(5,896)	2,256	2,112	10,057
At 31 December 2016	14,877	2,901	5,598	4,658	2,112	30,146
Credited/(charged) to profit or loss	(2,838)	1,015	121	(2,339)	(2,112)	(6,153)
(Charged) to reserves	(39)	–	–	–	–	(39)
At 31 December 2017	12,000	3,916	5,719	2,319	–	23,954

In accordance with the accounting policy set out in note 3(n), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB4,880,000 (2016: RMB1,123,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction of the entity.

(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 RMB'000	Deductible capitalised borrowing costs RMB'000	Revaluation of available-for-sale securities RMB'000	Total RMB'000
At 1 January 2016	10,580	33,566	–	44,146
(Credited)/charged to profit or loss	(5,876)	3,938	–	(1,938)
Charged to reserves	–	–	12,945	12,945
At 31 December 2016	4,704	37,504	12,945	55,153
Charged to profit or loss	–	5,468	–	5,468
(Credited) to reserves	–	–	(3,420)	(3,420)
At 31 December 2017	4,704	42,972	9,525	57,201

As at 31 December 2017, deferred tax liabilities of RMB4,704,000 (2016: RMB4,704,000) were recognised in respect of tax that would be payable on the distribution of the retained profits of the Group's PRC subsidiaries in the foreseeable future. Deferred tax liabilities of RMB116,740,000 (2016: RMB116,446,000) have not been recognised, as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that above undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future.

30 Capital, reserves and dividends

(a) Movements in components of equity

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

	Note	Share capital RMB'000 note 30(c)(i)	Share premium RMB'000 note 30(d)(i)	Capital redemption reserve RMB'000 note 30(d)(i)	Capital reserve RMB'000 note 30(d)(ii)	Exchange reserve RMB'000 note 30(d)(ii)	Accumulated losses	Total
Balance at 1 January 2016		40,167	1,590,760	492	17,369	–	(258,825)	1,389,963
Changes in equity for 2016:								
Total comprehensive income for the year		–	–	–	–	–	(44,252)	(44,252)
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	–	(14,912)	(14,912)
Issuance of share options		–	–	–	2,253	–	–	2,253
Forfeiture of share options		–	–	–	(3,772)	–	–	(3,772)
Balance at 31 December 2016 and 1 January 2017		40,167	1,590,760	492	15,850	–	(317,989)	1,329,280
Total comprehensive income for the year		–	–	–	–	5,880	(92,695)	(86,815)
Dividends approved in respect of the previous year	30(b)(ii)	–	–	–	–	–	(22,130)	(22,130)
Exercise of share options	30(c)(ii)	310	11,458	–	(2,253)	–	–	9,515
Balance at 31 December 2017		40,477	1,602,218	492	13,597	5,880	(432,814)	1,229,850

30 Capital, reserves and dividends (continued)

(b) Dividends

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

	2017 RMB'000	2016 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.

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

	2017 RMB'000	2016 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.

30 Capital, reserves and dividends (continued)

(c) Share capital

(i) Issued and fully paid share capital

Authorised:

	2017 and 2016 No. of Shares ('000)	Amount USD '000
Ordinary shares of USD0.0025 each (2016: USD0.0025)	4,000,000	10,000

Ordinary shares issued and fully paid:

	2017 No. of shares ('000)	Amount USD '000	RMB equivalent '000	2016 No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	**2,220,080**	**5,550**	**40,167**	2,220,080	5,550	40,167
Exercise of share options	**18,970**	**47**	**310**	–	–	–
At 31 December	**2,239,050**	**5,597**	**40,477**	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

During 2017, options issued in 2016 were exercised to subscribe for 18,970,000 ordinary shares in the Company at a consideration of RMB9,515,000 of which RMB310,000 was credited to share capital and the balance of RMB9,205,000 was credited to the share premium account. RMB2,253,000 has been transferred from the capital reserve to the share premium account in accordance with policy set out in 3(m)(ii).

(iii) Issuance of warrants

As at 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 into 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. The aggregate of 40,000,000 warrants issued under this agreement lapsed on 6 February 2017.

During 2017 and 2016, no warrants were exercised.

30 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The share premium represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares or the consideration paid for the repurchased shares of the Company. Under the Companies Law of the Cayman Islands, the 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 section 37 of the Cayman Islands Companies Law.

(ii) Capital reserve

The capital reserve comprises the following:

– 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;

– 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); and

– Consideration received from issuance of warrants in accordance with the terms of warrant placing agreement entered into by the Company and the subscribers net of direct expenses.

(iii) Merger reserve

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

(iv) Exchange reserve

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

(v) Fair value reserve

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

30 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(vi) PRC statutory reserves

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

General reserve fund

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

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

Enterprise expansion fund

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

(e) Distributability of reserves

As at 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,175,294,000 (2016: RMB1,272,771,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.0378 per ordinary share (2016: RMB0.0100), amounting to RMB84,550,000 (2016: RMB22,114,000). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

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

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

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

During 2017, the Group's strategy was to maintain a stable adjusted net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

30 Capital, reserves and dividends (continued)

The Group's adjusted net debt-to-capital ratios at 31 December 2017 and 2016 were as follows:

	Note	2017 RMB'000	2016 RMB'000
Current liabilities:			
Interest-bearing borrowings	25	**2,170,279**	2,678,912
Non-current liabilities:			
Interest-bearing borrowings	25	**823,013**	210,000
Total debt		**2,993,292**	2,888,912
Add: Proposed dividends	30(b)	**84,550**	22,114
Less: Cash and cash equivalents	24	**(219,798)**	(259,546)
Adjusted net debt		**2,858,044**	2,651,480
Total equity		**4,302,965**	4,155,434
Less: Proposed dividends	30(b)	**(84,550)**	(22,114)
Adjusted capital		**4,218,415**	4,133,320
Adjusted net debt-to-capital ratio		**68%**	64%

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, foreign 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 exposure to these credit risks are monitored on an ongoing basis.

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

31 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(i) Trade and other receivables

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group's customers are normally 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 2017, 0% (2016: 0%) and 7% (2016: 17%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

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

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

(ii) Investments

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

(iii) Deposits with banks

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

(b) Liquidity risk

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

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, as at 31 December 2017, total banking and borrowing facilities available to the Group amounted to RMB5,686,834,000 (2016: RMB5,680,224,000) of which RMB3,381,016,000 (2016: RMB3,301,007,000) had been utilised.

31 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

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

		2017 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	**2,233,448**	**803,815**	**33,054**	**3,070,317**	**2,993,292**
Trade and other payables	26	**1,302,982**	**–**	**–**	**1,302,982**	**1,302,982**
		3,536,430	**803,815**	**33,054**	**4,373,299**	**4,296,274**

		2016 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	2,718,510	217,328	–	2,935,838	2,888,912
Trade and other payables	26	1,145,129	–	–	1,145,129	1,145,129
		3,863,639	217,328	–	4,080,967	4,034,041

31 Financial risk management and fair values (continued)

(c) Foreign 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 entity 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 exposures 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.

	2017 Exposure to foreign currencies (expressed in RMB)			2016 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	**71,352**	**369,701**	**–**	60,930	109,571	–
Cash and cash equivalents	**10,597**	**9,576**	**12,086**	7,620	16,631	5,919
Trade and other payables	**(6,238)**	**(866)**	**–**	(22,791)	(111,322)	–
Interest-bearing borrowings	**(389,301)**	**(458,691)**	**–**	(252,854)	(253,929)	–
Net exposure arising from recognised assets and liabilities	**(313,590)**	**(80,280)**	**12,086**	(207,095)	(239,049)	5,919

31 Financial risk management and fair values (continued)

(c) Foreign currency risk (continued)

(ii) Sensitivity analysis

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

	2017		2016	
	Increase in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**5%**	**(14,639)**	5%	(9,010)
EUR	**10%**	**(6,973)**	10%	(20,122)
HKD	**5%**	**600**	5%	292

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

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign equity-accounted investees into the Group's presentation currency. The analysis is performed on the same basis as for 2016.

(d) Interest rate risk

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

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

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

31 Financial risk management and fair values (continued)

(d) Interest rate risk (continued)

(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:

	2017		2016	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate instruments				
Interest-bearing borrowings	0.90% – 5.22%	(987,005)	0.70% – 5.50%	(1,271,738)
Pledged deposits	1.15% – 1.75%	241,380	1.15% – 1.75%	180,180
Time deposits	1.10% – 1.50%	500,000	1.35% – 1.75%	640,000
		(245,625)		(451,558)
Variable rate instruments				
Interest-bearing borrowings	2.00% – 5.50%	(2,006,287)	1.00% – 5.75%	(1,617,174)

(ii) Sensitivity analysis

As at 31 December 2017, 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 RMB20,139,017 (2016: RMB14,113,619).

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 as for 2016.

31 Financial risk management and fair values (continued)

(e) Equity Price risk

The Group is exposed to equity price changes arising from available-for-sale equity securities (see note 19).

The Group's listed investment is listed on the Shanghai Stock Exchange. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group is also exposed to equity price risk arising from changes in the company's own share price to the extent that the company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the group.

At 31 December 2017, it is estimated that an increase/(decrease) of 10% (2016: 10%) in the relevant equity price (for listed investment), or the company's own share price as applicable, with all other variables held constant, would have increased/(decreased) other components of consolidated equity as follows:

	2017		2016	
		Effect on equity RMB'000		Effect on equity RMB'000
Changes in the relevant equity price risk variable:				
Increase	**10%**	**6,248**	10%	8,186
Decrease	**(10%)**	**(6,248)**	(10%)	(8,186)

The sensitivity analysis indicates the instantaneous change in the consolidated equity that would arise assuming that the changes in the equity price at the end of the reporting period. It is also assumed that the Group's available-for-sale investments would not be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis as for 2016.

31 Financial risk management and fair values (continued)

(f) Fair value measurement

(i) Financial assets measured at fair value

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

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

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

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

Available-for-sale securities (listed) as mentioned in note 19 is measured on quoted market price at the date of statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length standard. As all significant inputs is measured at unadjusted quoted prices in active markets, the instrument shall be included in Level 1.

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

Except for available-for-sale securities (listed) mentioned in note 31(f)(i), all financial instruments measured at other than fair value are carried at cost or amortised cost that are not materially different from their fair values as at 31 December 2017 and 31 December 2016.

32 Commitments

(a) Capital commitments outstanding as at 31 December 2017 not provided for in the consolidated financial statements were as follows:

	2017 **RMB'000**	2016 RMB'000
Contracted for	**25,362**	56,921
Authorised but not contracted for	**410,000**	152,277
	435,362	209,198

32 Commitments (continued)

(b) As at 31 December 2017, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**1,021**	1,468
After 1 year but within 5 years	**1,000**	–
	2,021	1,468

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"), controlling shareholder's family member's company, 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

	2017 RMB'000	2016 RMB'000
Sale of goods to:		
Joint ventures	**250,898**	249,584
Associates	**363,974**	60,997
Controlling shareholder's family member's company*	**11,772**	–
	626,644	310,581
Freight expenses to:		
Associates	**677**	2,250
Lease expenses to:		
Controlling shareholder's company	**1,000**	1,000

* The controlling shareholder became a connected person and the sales first became connected transaction on 17 November 2017. The amount of connected transaction fell within de minimis threshold under rule 14A76(1).

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

	2017 RMB'000	2016 RMB'000
Trade and other receivables due from		
Joint ventures	**295,685**	178,977
Associates	**29,370**	19,049
Controlling shareholder's family member's company	**1,923**	–
	326,978	198,026
Trade and other payables due to		
Associates	**7,004**	11,015

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

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

34 Company-level statement of financial position

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		**11**	11
Investments in subsidiaries		**1,368,029**	1,324,580
Interest in associates		**25,403**	30,376
		1,393,443	1,354,967
Current assets			
Cash and cash equivalents		**12,583**	5,640
		12,583	5,640
Current liabilities			
Interest-bearing borrowings		**78,052**	31,216
Trade and other payables		**111**	111
		78,163	31,327
Net current liabilities		**(65,580)**	(25,687)
Total assets less current liabilities		**1,327,863**	1,329,280
Non-current liabilities			
Interest-bearing borrowings		**98,013**	–
		98,013	–
Net assets		**1,229,850**	1,329,280
Capital and reserves			
Share capital	30(a)/(c)	**40,477**	40,167
Reserves	30(a)	**1,189,373**	1,289,113
Total equity		**1,229,850**	1,329,280

Approved and authorised for issue by the board of directors on 15 March 2018.

Zhu Xiaokun *Directors*

Yan Ronghua *Directors*

35 Accounting estimates and judgements

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

(a) Impairment losses on trade and other receivables

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

(b) Depreciation

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

(c) Net realisable value of inventories

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

(d) Income taxes

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

36 Immediate and ultimate controlling party

At 31 December 2017, 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.

37 Non-adjusting events after the reporting period

(a) Investment

On 29 January 2018, TG Investment 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.

(b) Share options scheme

As at 11 January 2018, the Company granted an aggregate of 60,000,000 share options to employees, directors and consultants of the Company (collectively "Grantees") to subscribe for ordinary shares of USD0.0025 each in the capital of the Company under its share option scheme adopted on 26 May 2017. The holders of the share options shall have the right to subscribe for ordinary shares during the period from the relevant vesting date and ending on 31 December of the same year as the vesting date at an exercise price of HKD1.50 per share.

The share options granted shall be vested by the Grantees when the following performance conditions are satisfied:

- If the consolidated audited net profit of the Company for the year ending 31 December 2018 represents an increase of 50% or more as compared to that of the year ended 31 December 2017, the vesting date will be 31 March 2019 for the 50% of the total share options ending granted.

- If the consolidated audited net profit of the Company for the year ending 31 December 2019 represents an increase of 50% or more as compared to that of the year ending 31 December 2018, the vesting date will be 31 March 2020 for the rest of the total share options granted.

(c) Proposed 2017 final dividend

The directors proposed a final dividend of RMB0.0378 per ordinary share on 15 March 2018. Further details are disclosed in note 30(b).

(Expressed in Renminbi unless otherwise indicated)

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 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
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019

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

IFRS 9, Financial instruments

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 9, Financial instruments (continued)

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

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

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

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

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

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

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

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 9, Financial instruments (continued)

(b) Impairment

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

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the assessment completed to date, the Group has identified the following area which is likely to be affected:

– Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales. The Group expects that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statements of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

Since the number of "open" sales contracts as at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. Also, the expected changes in accounting policies as described above will not have material impact on the Group's financial results from 2018 onwards.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (continued)

IFRS 16, Leases

As disclosed in note 3(f), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 32(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB2,021,000 for properties, the majority of which is payable within 1 year after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

Financial Information Summary

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,898,443**	3,376,134	3,429,397	4,535,670	3,396,670
Profit before taxation	**218,097**	130,916	85,205	544,168	608,719
Income tax	**(43,396)**	(14,920)	(13,074)	(81,421)	(138,617)
Profit for the year	**174,701**	115,996	72,131	462,747	470,102
Other comprehensive (loss)/ income for the year	**(14,555)**	45,713	(27,787)	(1,404)	(2,030)
Attributable to:					
Equity shareholders of the Company	**154,544**	156,284	44,836	462,062	467,697
Non-controlling interests	**5,602**	5,425	(492)	(719)	375
Earnings per share (RMB)					
Basic (RMB)	**0.076**	0.050	0.033	0.230	0.242

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**3,801,667**	3,737,020	3,432,974	3,168,657	2,635,765
Current assets	**4,902,213**	4,558,884	4,950,998	5,196,180	4,524,539
Total assets	**8,703,880**	8,295,904	8,383,972	8,364,837	7,160,304
Liabilities					
Non-current liabilities	**917,991**	309,029	578,292	689,801	405,589
Current liabilities	**3,482,924**	3,831,441	3,929,393	3,745,215	3,576,244
Total liabilities	**4,400,915**	4,140,470	4,507,685	4,435,016	3,981,833
Equity					
Total equity	**4,302,965**	4,155,434	3,876,287	3,929,821	3,178,471

Note:

The results of the Group for the four financial years ended 31 December 2013, 2014, 2015 and 2016 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. Wang Xuesong

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. Wang Xuesong

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

Nomination Committee
Mr. Gao Xiang *(Chairman)*
Mr. Zhu Xiaokun
Mr. Wang Xuesong
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
Zhenjiang 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
The Export-import Bank of China
The Hong Kong and Shanghai Banking Corporation Limited

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