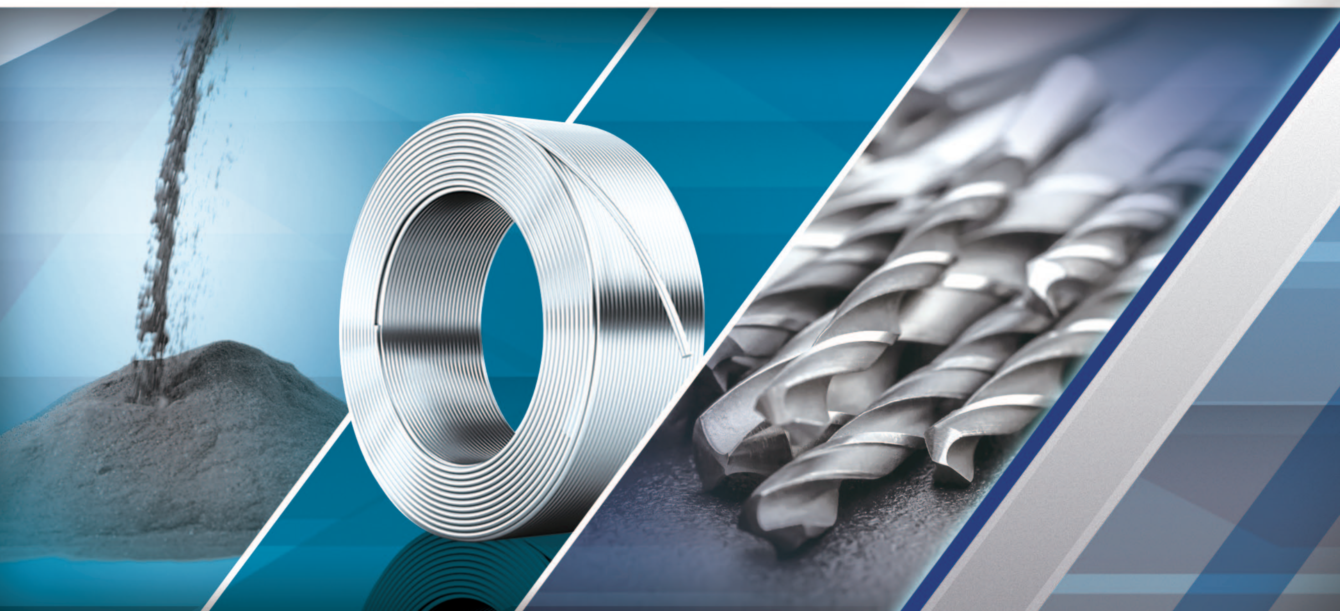
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

ANNUAL REPORT 2019



* For identification purpose only

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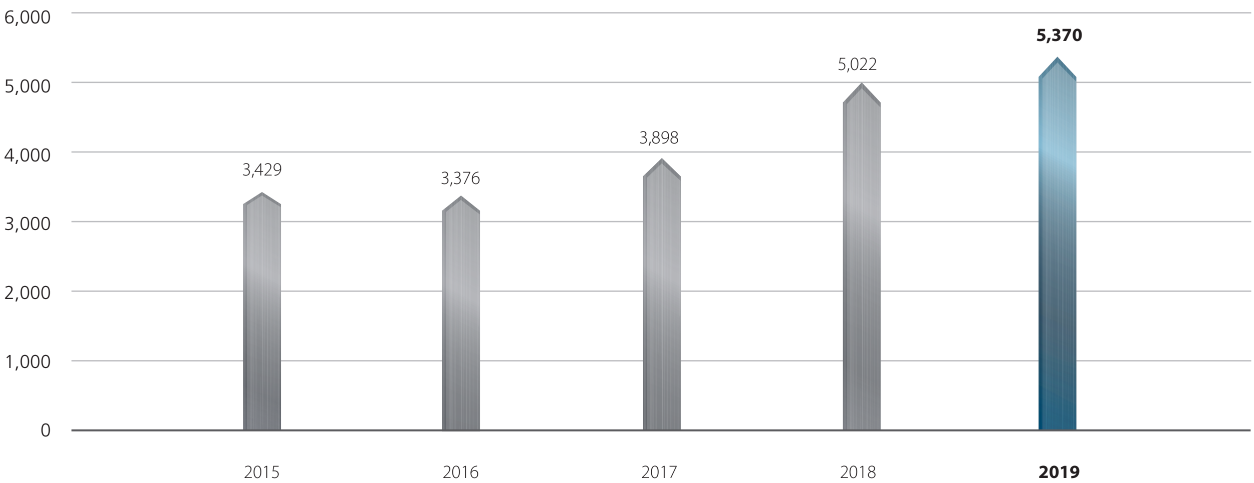
FINANCIAL HIGHLIGHTS

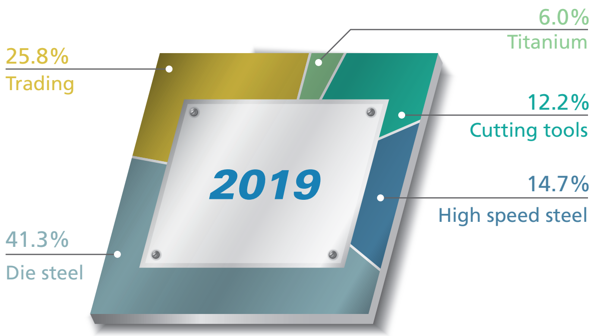
	2019	2018
Revenue (RMB'000)	**5,369,873**	5,021,546
Net profit for the year attributable to equity shareholders of the Company (RMB'000)	**395,146**	258,835
Basic earnings per share (RMB)	**0.156**	0.106
Proposed final dividend per share (RMB)	**0.0545**	0.0357

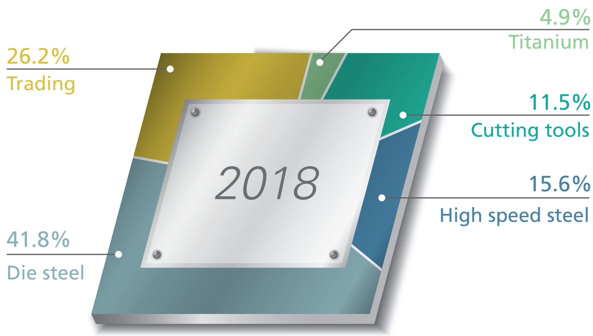
Revenue

RMB' million



Revenue by Product Mix





CHAIRMAN'S STATEMENT

With a globally leading market position in new materials and high-end precision manufacturing, we are transforming into a firm specialized in high-end new materials as we regard leading the global industry development as our responsibility and work constantly to make our products more unique and more competitive in global markets, which is conducive to expanding profitability and creating greater value for shareholders.

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 2019.

In respect of financial performance, the Group experienced a steady growth in sales. During the year, the Group recorded a year-on-year increase of 6.9% to RMB5.370 billion in revenue, reaching an all-time high, and significant year-on-year increase of 17.9% to RMB1.020 billion in gross profits. Benefiting from continuous improvements on the product structure, major expansion in high-end application sector, research and development and mass production of new products as well as more effective control of processes and costs, the Group's overall gross margin increased 1.8 percentage points over last year to 19.0%. In 2019, net profit attributable to equity shareholders of the Group amounted to RMB395 million, representing a year-on-year increase of 52.7%. We believe that the Group's profitability and profit level will continue to improve.

In 2019, the key position of the new material industry is further highlighted. The National Development and Reform Commission released the "Catalogue for Guiding Industry Restructuring (2019 Version) (《產業結構調整指導目錄(2019年本）》)", in which high-performance tool steel, high-purity and high-quality alloy powder were included in national encouraged products. It fully demonstrated that the direction of the Group's main business development is in line with China's national strategic planning. As the industry leader, the Group always upholds the spirit of craftsmanship, striving to become a world-class new material enterprise.

CHAIRMAN'S STATEMENT

According to the latest report of the leading global research centre, Steel & Metals Market Research, the Group is ranked second on global die steel producers, moving up one place from the previous report again. Besides, the Group is ranked first globally for the 14th consecutive year and nationally for the 21th consecutive year in terms of annual production capacity of high-speed steel products.

The Group made a major breakthrough in powder metallurgy during the year, aiming at the forefront of the industry. The first phase of the Group's production line of powder metallurgy for tool and mold steel was put into operation, with an annual capacity of 2000 tonnes. This production line, as China's first of its kind, has filled the blank of powder metallurgy supply in the country. The Group will deploy resources to construct its second phase in line with actual production and sales figures. When the whole product line is up running, its annual capacity is expected to reach 5000 tonnes. That will meet the domestic demand for powder metallurgy materials and eliminate the need for imports. It will also help the Group concentrate on applications of such materials worldwide and explore overseas markets of new materials, which will in turn drive the Group's transition from subtractive manufacturing to additive manufacturing made possible by technologies like 3D printing and increase the Group's market share in high-end manufacturing across the world.

In order to implement the vision of globally development with high quality and growth rate, which can be summarized as 'China Tiangong, World-wide Sharing', the Group signed strategic partnership agreements with multiple well-known Chinese and foreign firms in the fields of hard alloy cutters, titanium alloys, and powder metallurgy during the year. These partnerships are intended to explore global markets of precision cutting tools, titanium materials, and powder metallurgy so as to set new trends for the development of relevant industries.

For overseas market, the Group drew on the scarcity and strong competitiveness of its products in responding to the safeguard measure investigation in Turkey, which ended with no tax imposed on it. This once again manifested the Group's market position in the world and promoted the Group's competitiveness in international market. Besides, the Group actively explores overseas markets. After setting up joint ventures or associate companies for sales in the United States, South Korea, the Czech Republic, Italy, India, Taiwan, Turkey, Canada, and Mexico, it established a sales subsidiary in Thailand in 2019, which became the Group's first self-operated sales company overseas.

For Capacity expansion, the Group has vigorously promoted the integration of global production and marketing. Under the guidance of the Belt and Road Initiative, the Group has started the construction of the first overseas highly automated cutting tool factory in Thailand's Rojana Industrial Park. This factory is expected to be put into operation in September 2020 with an annual capacity of 48 million pieces, which can be scaled up to 100 million pieces if required by future demand. That is a major step in the Group's effort to integrate global production and marketing. As a result, the Group can be more resistant to the uncertainty of international trade situation. In addition, the Group has finished expanding the capacity of its hard alloy production line on a full scale, which has been improved in terms of production, research, and application. The Group has gradually shifted from producing common cutting tools to making cutting tools for high-end manufacturing. At the same time, the Group is considering the feasibility of setting up overseas new material processing plants, striving to achieve the internationalization of the industry chain.

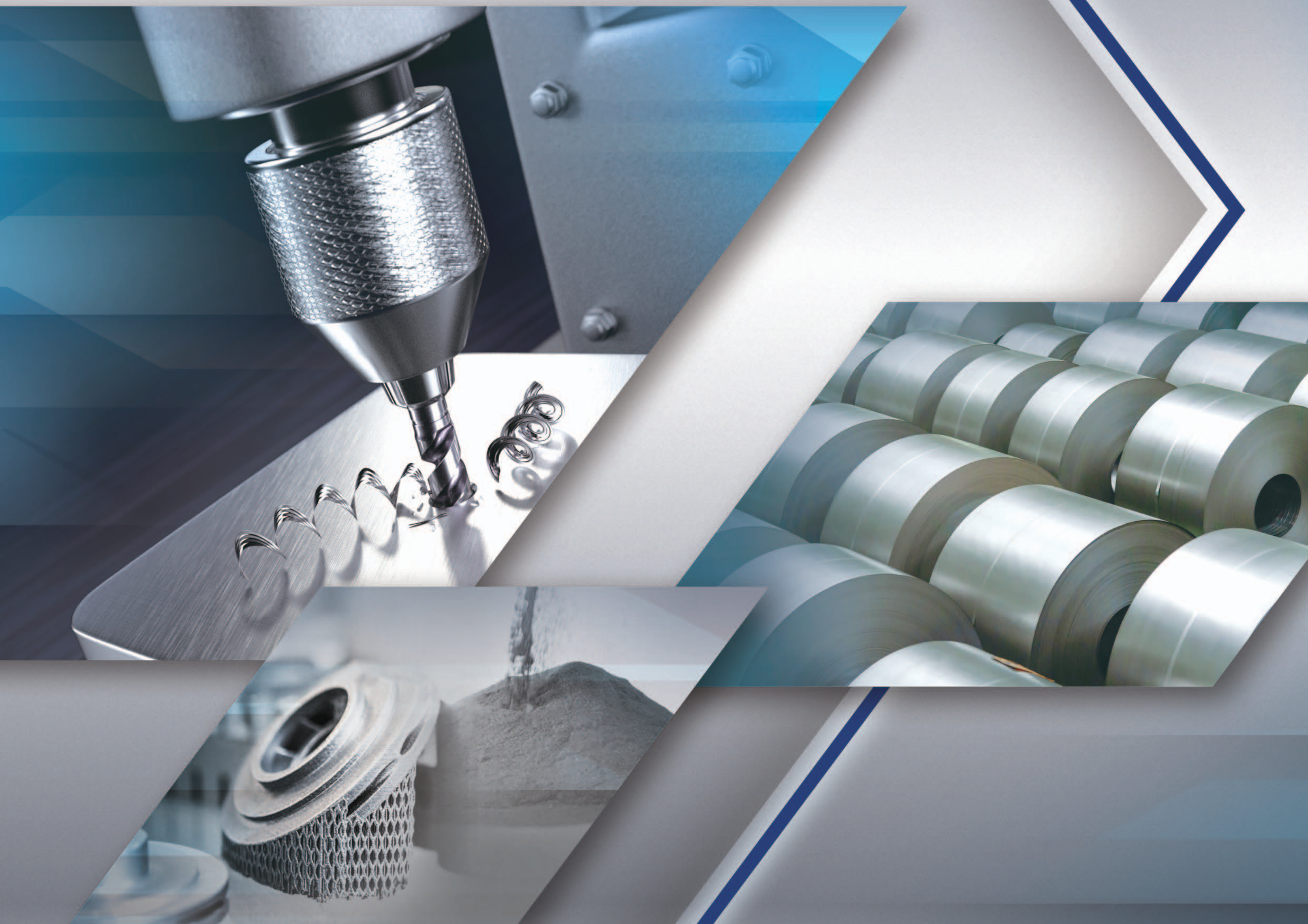
In order to strengthen and enhance the Group's competitiveness in international markets, the Company is actively exploring and preparing for the opportunities of acquisition of suitable overseas new materials enterprises with a view to improving operational efficiency and maximizing its market share in global markets. The Group is also committed to acquiring local and overseas waste materials at low cost and improving production efficiency through sophisticated management to seek for further reduction on production cost.

In terms of marketing strategy, the Group has expanded sales channels and enhanced the deployment of diversified sales channels. On one hand, the Group will consistently increase the proportion of direct sales to minimise the dependence on distributors. On the other hand, the Group has stepped up online sales by setting up national and global online sales channels, which will help expand sale scale and enhance the Group's profitability.

Benefiting from the favorable policies from the government to manufacturing industry such as reduction on taxes and administrative fees, it is expected that the Group's profit margin will be further enhanced. Each business segment of the Group is clearly positioned and maturely developed. The Group will build on its leading market position in the fields of high-speed steel and high-speed steel cutting tools as it transforms into a firm that deals with high-end special steel and new materials, to strive for profitability and create more returns for the shareholders of the Group.

Finally, on behalf of the board, I would like to express my sincere gratitude to our management and all employees 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 & Analysis



BUSINESS REVIEW

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel ("DS")	**2,215,337**	**41.3**	2,098,110	41.8	117,227	5.6
High speed steel ("HSS")	**791,116**	**14.7**	782,015	15.6	9,101	1.2
Cutting tools	**657,094**	**12.2**	581,232	11.5	75,862	13.1
Titanium alloy	**321,709**	**6.0**	245,155	4.9	76,554	31.2
Trading of goods	**1,384,617**	**25.8**	1,315,034	26.2	69,583	5.3
	5,369,873	**100.0**	5,021,546	100.0	348,327	6.9

DS — accounted for 41.3% of the Group's revenue in FY 2019

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
DS						
Domestic	**1,079,521**	**48.7**	944,542	45.0	134,979	14.3
Export	**1,135,816**	**51.3**	1,153,568	55.0	(17,752)	(1.5)
	2,215,337	**100.0**	2,098,110	100.0	117,227	5.6

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.

Revenue generated from DS segment increased to RMB2,215,337,000 (2018: RMB2,098,110,000). Overall increase of 5.6% in revenue of DS segment was attributable to strong market demand in both domestic and overseas markets. Overall sales volume increased by 14.1% due to higher recognition of the Group's products. Nevertheless, average cost of rare metals, which were used as raw materials by the Group, decreased slightly. As a result of the reduction in cost of rare metals, the Group was able to reduce its selling price of DS and therefore the average selling price decreased by 7.5% compared to 2018.

Thanked to the high recognition and reliance on the quality of Group's products by local customers, domestic revenue increased sharply by 14.3%. Domestic sales volume increased significantly by 26.1%, while the average selling price decreased by 9.3% due to the reduced price of rare metals, our major raw materials used in the production.

Compared to the domestic market, overseas markets were relatively steady. Export sales volume increased by 2.5% while average selling price decreased by 3.9%. Overall, the export revenue slightly decreased by 1.5%.

HSS — accounted for 14.7% of the Group's revenue in FY 2019

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**513,163**	**64.9**	527,517	67.5	(14,354)	(2.7)
Export	**277,953**	**35.1**	254,498	32.5	23,455	9.2
	791,116	**100.0**	782,015	100.0	9,101	1.2

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.

Total sales volume and average selling price were persisted, with movement of less than 1.2%. Accordingly, revenue generated by the HSS segment remained relatively stable at RMB791,116,000 (2018: RMB782,015,000).

In the domestic market, the Group shifted the focus from low-alloyed HSS products to high-alloyed HSS products. Products made with high-alloyed HSS are generally more durable and sold at higher average selling price. With this change in product focus, domestic sales volume decreased by 4.2%, while the average selling price increased by 1.5%. Overall domestic revenue decreased by 2.7%.

In overseas markets, acceptance of the Group's products continued to increase. Export sales volume recorded an increase of 13.7%. Customers of overseas markets favour HSS products with higher composition of rare metals. Due to the reduced price of tungsten in 2019, one of the rare metals specifically used in production of HSS, the average selling price of export sales decreased by 3.9%. Combining both effects, export revenue increased by 9.2%.

Cutting tools — accounted for 12.2% of the Group's revenue in FY 2019

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Cutting tools						
Domestic	**229,192**	**34.9**	219,871	37.8	9,321	4.2
Export	**427,902**	**65.1**	361,361	62.2	66,541	18.4
	657,094	**100.0**	581,232	100.0	75,862	13.1

The 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 tools production brought us a significant cost advantage over our peers. High end carbide tools manufactured by the Group mainly comprised of customised carbide tools.

Since 2018, the Group has adopted a policy to avoid any unnecessary price wars with other small scale production companies in the domestic lower-end market. In 2019, the Group continued to focus more on middle-end products in both domestic and overseas markets, which the market environment was less competitive. This has resulted in a reduction in the overall sales volume, but at the same time, an increase in average selling prices.

Overall sales volume of cutting tools products decreased by 13.4%, while the average selling price increased by 30.6%. Revenue of the cutting tools segment consequently increased by 13.1% to RMB657,094,000 (2018: RMB581,232,000).

In the domestic market, the change in policy resulted in a decrease of 20.1% in domestic sales volume. On the other hand, the concentration on middle-end products resulted an increase of 30.5% in average selling price. The policy change successfully brought a 4.2% increase in domestic revenue.

The export business of cutting tools outperformed domestic business. With increased recognition of quality and reliability by overseas customers, orders of one of our major competitors, who was mainly engaged in OEM production of cutting tools for foreign famous brands, were considerably absorbed by the Group. As a result, notwithstanding the change in marketing policy, export sales volume only decreased by 10.3%. With a significant increase of 32.1% in average selling price, export revenue increased by 18.4%.

Titanium alloy — accounted for 6.0% of the Group's revenue in FY 2019

	For the year ended 31 December					
	2019		2018		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Titanium alloy						
Domestic	**319,638**	**99.4**	242,492	98.9	77,146	31.8
Export	**2,071**	**0.6**	2,662	1.1	(591)	(22.2)
	321,709	**100.0**	245,155	100.0	76,554	31.2

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.

Tightened environmental requirements have stimulated demand of titanium pipes and containers in chemical industry. Also, the expansion of new customers in 2019 resulted in an overall increase of 16.2% in sales volume. Average selling price of titanium alloy products also increased by 13.0% due to the increased price of titanium sponge, a major raw material. As a result, a significant increase in revenue by 31.2% to RMB321,709,000 (2018: RMB245,155,000) was 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. Instead of pursuing profitability, the Group intended to utilise their enriched sourcing resources in the supply chain to maintain the relationship with our existing customers.

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company increased by 52.7% from RMB258,835,000 in 2018 to RMB395,146,000 in 2019. The increase was mainly attributable to (i) the production costs of our four major segments were reduced through the Group's innovative research and development efforts, thereby increased the proportion of higher-end products with higher gross margin; and (ii) the Group has been actively developing various sales channels to increase the proportion of direct sales, where an improvement in profitability was shown.

Revenue

Revenue of the Group for 2019 totalled RMB5,369,873,000, representing an increase of 6.9% as compared with RMB5,021,546,000 in 2018. All the segments of the Group experienced an increase in revenue compared to the prior year.

Cost of sales

The Group's cost of sales was RMB4,350,214,000 in 2019, representing an increase of 4.6% as compared with RMB4,157,004,000 (restated) in 2018, as a result of the increase in sales.

Gross margin

For 2019, the overall gross margin was 19.0% (2018: 17.2% (restated)). Set out below is the gross margin of our five segments in 2019 and 2018:

	2019	2018 (Restated)
DS	**25.9%**	24.5%
HSS	**25.0%**	21.4%
Cutting tools	**16.3%**	13.9%
Titanium alloy	**20.3%**	20.6%
Trading of goods	**0.04%**	0.02%

DS

The gross margin of DS increased from 24.5% (restated) in 2018 to 25.9% in 2019. The Group continuously devoted in development of the direct sales channel. These efforts have started to be realised a in 2019, which allowed the Group to enjoy an improved gross margin.

HSS

The gross margin of HSS increased from 21.4% (restated) in 2018 to 25.0% in 2019. A shift from low-alloyed HSS products focus to high-alloyed HSS products focus resulted in a higher gross margin and profitability to the Group.

Cutting tools

With a change in the Group's marketing policy, focusing more on middle-end products, this has increased the profitability of the cutting tools segment. The gross margin of cutting tools increased from 13.9% (restated) in 2018 to 16.3% in 2019.

Titanium alloy

The sales product mix was similar in both 2018 and 2019. The titanium alloy segment retained a stable gross margin of 20.3% in 2019 (2018: 20.6% (restated)).

Trading of goods

The gross margin of this segment remained stable at 0.04% (2018: 0.02%).

Other income

Other income increased from RMB42,467,000 in 2018 to RMB55,895,000 in 2019. The main reason for the increase were (i) fair value gain recorded for newly invested unlisted investment fund; and (ii) reversal of loss allowance on trade receivable after recovering domestic receivables aged between 1-2 years.

Distribution expenses

Distribution expenses in 2019 were RMB97,554,000 (2018: RMB105,000,000), representing a decrease of 7.1%. The decrease was mainly due to one-off marketing and advertising campaign expenses incurred in 2018. For 2019, distribution expenses as a percentage of revenue was 1.8% (2018: 2.1%).

Administrative expenses

Administrative expenses decreased from RMB132,551,000 (restated) in 2018 to RMB129,363,000 in 2019. The decrease was mainly attributable to the cost allocation of the share option scheme. According to the vesting period of the 60,000,000 share options granted in 2018, a larger portion of the cost of the share option scheme was incurred in 2018. The effect was partially offset by the one-off land appreciation tax incurred for the transfer of land and buildings within the Group. For 2019, administrative expenses as a percentage of revenue was 2.4% (2018 Restated: 2.6%).

Other expenses

Other expenses decreased significantly from RMB40,755,000 in 2018 to RMB1,990,000 in 2019.

As at 31 December 2018, substantial part of the other expenses was the expected credit loss provision on trade receivables. Significant amount of receivables was classified to age with 1-2 years according to their actual time of outstanding. A much higher expected credit loss provision was considered for receivables with 1-2 years aging comparing to its precedent of 7-12 months. Together with other necessary provision, a total of RMB35,374,000 expected credit loss was recognised in the other expenses in 2018.

Major part of these long aged receivables was recovered during 2019. In addition, average aging of trade receivables was more recent comparing to that of 2018. Therefore, expected credit loss provision decreased in current year.

Net finance costs

The Group's finance income was RMB26,450,000 in 2019, representing an increase of RMB19,217,000. With the increased free cash balance, the Group invested in more time deposit during 2019 to capture a higher interest return. The Group's finance expense was RMB156,636,000 in 2019, representing an increase of 10% from RMB142,071,000 in 2018. The increase was due to 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 241% from RMB13,598,000 in 2018 to RMB46,353,000 in 2019. The increase was the combined effect of (i) increase in taxable operating profit of the Group in 2019; and (ii) one-off withholding tax refund was received in 2018 for reinvesting dividends distribution of one of the Group's PRC subsidiaries by foreign intermediate holding companies.

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 52.7% from RMB258,835,000 in 2018 to RMB395,146,000 in 2019. The margin of profit attributable to equity shareholders of the Company increased from 5.2% in 2018 to 7.4% in 2019.

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

For 2019, total comprehensive income for the year attributable to equity shareholders of the Company was RMB409,452,000 (2018: RMB247,228,000) after taking into account foreign currency translation differences and fair value adjustments on equity investments.

During the year, the Group credited to other comprehensive income a foreign currency translation difference of RMB1,826,000 (2018: debited RMB3,562,000) related to translation of financial statements of Hong Kong subsidiaries and overseas equity accounted investees.

The Group also recognised a fair value gain in the consolidated statement of profit or loss and other comprehensive income of RMB12,480,000 (2018: loss of RMB8,045,000) on its equity investments.

Other financial assets

Other financial assets held by the Group included Bank of Jiangsu, Xiamen Chuangfeng Yizhi Investment Management Partnership, Nanjing Xiaomuma Technology Co., Ltd., JM Digital Steel Inc. and Jinan Financial Fosun Weishi Equity Investment Fund. All of these investments were stated at their fair value as at 31 December 2019. The total fair value gain, net of tax, of RMB4,897,000 was recorded in other income (2018: nil) and RMB12,480,000 (2018: loss of RMB8,045,000) was recorded in other comprehensive income during the year.

Trade and bills receivables

Trade and bills receivables increased from RMB1,999,111,000 in 2018 to RMB2,160,496,000 in 2019, which was mainly due to the expansion of sales. During the year, loss allowance of trade receivables decreased by RMB12,158,000, after recovering aged (between 1-2 years) domestic receivables during 2019. The relevant recognised expected credit loss allowance was reversed accordingly.

INDUSTRY REVIEW

In 2019, China's economy ran stably and showed positive signs despite the slowdown of global economic growth. Supply-side reform in the country continued to deepen, driving the economy towards higher-quality development. According to data released by the National Bureau of Statistics, China's GDP increased by 6.1% to hit RMB99.0865 trillion in 2019. National value-added by industrial enterprises above designated size increased by 5.7% over the previous year. Among such firms, those in high-tech manufacturing and strategic emerging industries registered an industrial value-added growth of 8.8% and 8.4% respectively, much higher than the average value-added by industrial enterprises above designated size.

During four years of supply-side reform, the supply structure of the iron and steel industry has undergone constant optimisation. The output of special steel in China has gradually increased. However, special steel still accounts for a low proportion of the country's total steel output. According to monitoring data from LANGE, China's major special steel companies produced about 140 million tonnes of crude special steel in 2019, increased by 6.78% than that of 2018. The output of non-alloy steel increased by 8.44% to 53.34 million tonnes, as compared to 2018. The output of low-alloy steel increased by 11.10% to 48.82 million tonnes than that of 2018. The output of high value-added alloy steel was about 34.09 million tonnes, which increased by 0.13% year-on-year and accounting for only 23.94% of the output of crude special steel from major special steel companies. Statistics show that crude special steel from China's major special steel companies accounted for only 14.29% of the country's total output of crude steel in 2019, far below the level of more than 20% in developed countries such as Japan and Germany, which creates a huge demand for imports. In addition, the output of alloy steel made up only 3.24% of the country's total output of crude steel, while the downstream demand from the likes of the defense industry and high-tech industries kept rising, which resulted in a heavy reliance on imports. There is substantial room for import substitution for China's special steel products, especially the high-end special steel products.

The effort to address overcapacity in the iron and steel industry has shifted the focus and entered a new stage of structural de-overcapacity and systematic optimization, intended to boost quality and efficiency across the industry. Special steel is a determinant factor for the high-quality development of the iron and steel industry. It also represents the direction for the industry development in the future. However, the concentration of China's special steel sector is still relatively low, which necessitates further optimisation of the industrial structure. According to data from the Special Steel Association, the top five special steel producers in China constitute about 35% of the country's total output of special steel, whereas this percentage is over 70% in developed industrial countries. As an important measure of a country's manufacturing strength, special steel products are widely used in high-end equipment manufacturing and strategic emerging industries. They play an extremely important role in transforming and upgrading China's manufacturing industry. Amid increased uncertainty in global trade, the accelerating effort to substitute domestic special steel products, especially the high-end types, for imports has gradually become a clear trend, which spells opportunity for the rapid development of the special steel sector.

Meanwhile, against the backdrop of transforming China's manufacturing industry and speeding up high-quality development, the government has frequently released favorable policies to support the development of special steel sector. In 2015, the State Council launched the Made in China 2025 strategy, which pushed the endeavor to make a manufacturing power of the country into full swing. Under the banner of Made in China 2025, the government came up with a series of measures to promote the development of new materials, including special steel, from the perspectives of both institutional arrangements and industry policies. In 2018, 39 types of advanced iron and steel materials, including high-performance DS and HSS, were added to the national catalog of new material industries in the Categorization of Strategic Emerging Industries (2018), issued by the National Bureau of Statistics. In October 2019, the National Development and Reform Commission released a revised edition of the Guiding Catalog for Industrial Restructuring (2019), which lists high-performance DS and HSS and high-purity, high-quality alloy powder as government-encouraged products, giving renewed prominence to the importance of special steel. A meeting convened by the Political Bureau of the CPC Central Committee in December 2019 once again stressed the need to speed up the construction of a modern economic system and promote the high-quality development of the manufacturing industry. As China's manufacturing industry enters the stage of high-quality development, the demand for medium and high-end special steel, including the Group's DS and HSS products will be pushed up, and the special steel sector which has tremendous growth potential, will receive more prominent status.

MARKET REVIEW

In 2019, global economic growth slowed down, and global trade got mired in more uncertainty. Despite all this, the replacement of old growth drivers with new ones in China was picking up speed, and the country's industrial economy was still running stably within the reasonable range. The growth rate of industrial investments experienced a steady increase, and the consumption of industrial products continued a streak of stable growth. The Group's main products are DS, HSS, cutting tools, and titanium alloys. DS is renowned as the "mother of industry", and cutting tools are nicknamed the "teeth" of industrial machine tools. These products provide strong support for the stable development of industry and have gained a stable foothold in the market.

Market Position

With a development strategy of transforming the high-end product market and enhancing core competitiveness with diversified products, the Group has pulled off steady sales growth in business of DS and titanium alloys, which has driven up the overall performance. According to the latest report from Steel and Metals Market Research, which is the world's authoritative market research institute for iron, steel, and metal products, the Group's output of DS, HSS of about 175 thousand tonnes, moving from third place to second place in the rankings for DS and HSS companies around the globe. The Group's annual capacity of HSS products has been the highest around the world for 14 consecutive years and the highest in China for 21 consecutive years.

Achievement

The Group's unique products and leading market position across the world have won it multiple honors in the industry and the capital market. We received the Award for the Most Investment-worthy Company in 2019 China Financing Awards, organised by cn "China Financial Market", a well-known financial magazine. Jiangsu Tiangong Technology Company Limited ("TG Tech") received a BS EN ISO 9001:2015/EN9100:2018 aviation quality management system certificate from the world-famous inspection and certification body Bureau Veritas. The Group's project of developing and applying key technologies for high-quality DS was awarded the first prize for metallurgy by China Iron and Steel Association, the Chinese Society for Metals, and the Award Committee for Metallurgical Technologies. The Group's DS, HSS and cutting tools received the certificate of China's Trusted-quality Product from China Association for Quality Inspection, and the Group received the certificate for China's Leading Brand of Metal Processing from the same association and the Awards for Zhenjiang Mayor Quality Award from by the Zhenjiang Municipal Government. On 9 March 2020, the Group became a constituent component of the Hang Seng Composite Index, given the Company has not increased its share capital (except share option scheme) in the past 12 months to increase its market capitalisation, this indicated that the Company's development has been recognised by the capital market.

OUTLOOK

Domestic Operating environment

The special steel sector will remain under pressure for the near future amid the double whammy of the Coronavirus disease (COVID-19) outbreak and international trade tensions. Faced with the outbreak, the Group promptly put in place targeted preventive measures and established an emergency response steering Group to take concrete actions and minimise the impact of the outbreak. In fact, the Group's supply chain is extremely flexible, while Hubei accounts for less than 0.1% of supply and sales. Therefore, the ratio of the Group's employees could not return to work because of the outbreak is below 1%. The Group has quickly recovered capacity. 100% of the employees at the headquarters in Zhenjiang have resumed work, with all production lines running fully loaded as at 20 March 2020. So the Coronavirus disease (COVID-19) coronavirus outbreak has had little impact on the Group.

China's manufacturing industry is in an important period of transitioning from medium and low-end to high-end, and the demand for special steel is large. After the Coronavirus disease (COVID-19) outbreak is contained, the government is expected to intensify its counter-cyclical adjustments. Therefore, the future of the special steel sector is still promising. The Coronavirus disease (COVID-19) outbreak will cause a tight supply of rare metals and a rise in their prices for the near future. The Group can pass on the increased cost of rare metal, which was used as raw material of the special steel products, to customers, and therefore the gross profit margin is relatively controllable. In addition, the constantly favorable prices of raw materials will contribute to the Group's overall revenue, which is conducive to the expansion of the Group's business.

In January 2020, it was clearly pointed out at an executive meeting of the State Council that great efforts should be made to improve the business environment and that tax relief and fee reductions focused on manufacturing should remain in place. The Group is expected to continue benefiting from these policy tailwinds.

Overseas expansion strategy

The Group is actively deploying capacity overseas. Its first overseas highly automated cutting tool factory in Thailand, which is expected to start operating in September 2020. That will boost the Group's capacity and efficiency. In addition, the Group has continuously expanded overseas markets and has established jointly controlled/associated sales companies in many countries and territories. TG Special Steel Co., Ltd, the Group's first self-operated sales subsidiary company was formally founded in 2019. Driven by its integrated approach to global production and marketing, the Group will further expand its market share and reduce the uncertainty caused by trade frictions.

Also, the Group will keep searching for acquisition targets in the new material field overseas to provide strong support for steady performance improvements over the long run.

Product development strategy

In recent years, the Group has been committed to explore the market of high-end new materials, aiming to enhance competitiveness in the industry. The Group has made an investment in China's first production line of powder metallurgy for DS and HSS and the first phase of the project was put into operation in November 2019 in order to fill the gap in the domestic market. Construction for the second phase of the project will start depending on the future situation. With solid technical support from China's first research institute of powder metallurgy established by the Group and China Iron & Steel Research Institute Group, the production line of powder metallurgy will help the Group promote competitiveness in the international high-end product market and gradually achieve the transformation from subtractive manufacturing to additive manufacturing (such as 3D printing etc).

Market Strategy

The Group is a world-leading manufacturer of high-end new materials, and its main products are widely used in various industries, such as aviation, automobiles, high-speed trains, and petrochemicals. Our products sell well in Europe, the US, and Asia and have won trust and support from customers. Their bright market prospects will push the Group's market share to a higher level. Meanwhile, the Group is shifting the market focus to the medium and high-end products in order to prevent unnecessary price wars, enhance customer stickiness, and ensure stable profits.

Marketing Strategy

The Group will keep working to increase the proportion of direct sales, gain a better understand of customer needs, and provide high-quality products that are more in line with market demand. It will strive to establish mutually beneficial cooperation relations with customers and further enhance customer stickiness, which will bring about steady performance growth. Considering the rapid development of e-commerce, the Group will develop diversified sales channels via Alibaba, Amazon, eBay, JD and Tmall etc. That entails expanding and strengthening the Group's online sales channels, which will lead to additional sales gains.

In order to implement the vision of globally development with high quality and growth rate, which can be summarised as 'China Tiangong, World-wide Sharing', the Group will promote the overseas production capacity layout and accelerate the development of high-end new materials market. The Group will constantly enhance competitiveness in the industry and boost operating efficiency, which will improve profitability and create more value for shareholders.

OUR MISSION

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 maximisation 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.

USE OF PLACING PROCEEDS

The Group invited two strategic investors, BAIC Group Industrial Investment Co., Ltd. and Jiangsu Shagang Group Co., Ltd. to subscribe for an aggregate of 300,000,000 shares. The placing of the 300,000,000 shares was completed on 11 May 2018 with the net proceeds of HK$477,800,000.

The proceeds from the placing was fully utilised by 30 June 2019. For details, please refer to the Company's interim report 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group's current assets included cash and cash equivalents of RMB398,017,000, inventories of RMB1,734,664,000, trade and other receivables of RMB2,708,618,000, pledged deposits of RMB610,400,000 and time deposits of RMB500,000,000. As at 31 December 2019, the interest-bearing borrowings of the Group were RMB3,251,733,000 (2018: RMB3,183,779,000), RMB2,612,845,000 of which was repayable within one year and RMB638,888,000 of which was 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 2019, was 59.1% (2018: 56.9%).

The increase in borrowings was mainly attributable to the increased cash demand as a result of expansion of production and sales of the Group. As at 31 December 2019, borrowings of RMB1,913,000,000 were in RMB, USD99,437,074 were in USD, EUR65,140,227 were in EUR and HKD151,615,227 were in HKD. The borrowings of the Group were subject to interest payable at rates ranging from 0.70% to 5.22% 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 RMB398,666,000 (2018: RMB810,899,000). The decrease was mainly attributable to: (i) increased proportion of sales during second half of 2019, especially close the third quarter of the year, which in turns, led to an increase in trade receivables balance; and (ii) increased prepayment for raw and auxiliary materials, which was used to secure the production supplies to deal with the increased demand.

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 2019 was 156 days (2018: 171 days (restated)). 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 2019 was 141 days (2018: 135 days). The lengthened turnover days of trade receivables was mainly due to the proportion of sales during second half of 2019 increased.

The Group's turnover days of trade payables for 2019 was 131 days (2018: 126 days (restated)). The lengthened turnover days of trade payables was due to the better utilisation of bills for trade payables.

Accordingly, the Group's cash conversion cycle for 2019 was 166 days (2018: 180 days (restated)). The improved cash conversion cycle was mainly due to the more effective and efficient control over the inventory production and optimisation of the production processes. It should be noted 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 2019, the Group's net increase in property, plant and equipment amounted to RMB269,819,000, which was mainly due to expenditure on production line of powder metallurgy and were financed by a combination of our internal cash resources, operating cashflows and bank borrowings. As at 31 December 2019, capital commitments were RMB350,787,000 (2018: RMB458,597,000), of which RMB92,792,000 (2018: RMB90,265,000) were contracted for and RMB257,995,000 (2018: RMB368,332,000) were authorised but not contracted for. The majority of the capital commitments related to investment in the production line of powder metallurgy and medium frequency induction furnace construction 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 65.7%. 34.3% 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 2019, the Group pledged certain bank deposits amounting to RMB610,400,000 (2018: RMB464,500,000) and certain trade receivables amounting to RMB107,037,000 (2018: RMB151,780,000). The increase in pledged bank deposits was to support the increased banking facilities of the Group for issuance of bank acceptance bills.

EMPLOYEES' REMUNERATION AND TRAINING

As at 31 December 2019, the Group employed 2,817 employees (2018: 2,864 employees). Total staff costs during the year amounted to RMB280,094,000 (2018: RMB268,791,000). 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 33 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 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 2019 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 & GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the Environmental, Social and Governance Report

This is the fourth Environmental, Social and Governance Report (the "ESG Report") published by Tiangong International Company Limited ("the Company") and its subsidiaries (collectively referred to as the "Group"). The ESG Report mainly covers the annual performance and progress of the Group's environmental, social and other sustainability issues in 2019, so as to respond to relevant expectations of stakeholders. It is to be read in conjunction with the "Corporate Governance Report" of *Tiangong International Company Limited Annual Report 2019* (the "Annual Report 2019"), so as to have a comprehensive overview on the environmental, social and governance (the "ESG") performance of the Group.

ESG Reporting Content and Period

Unless otherwise stated, the organisational scope of the ESG Report covers the Company and its major subsidiaries. Other subsidiaries and associates of the Group that are not directly engaged in production activities have relatively minor impacts on the overall environmental and social performance of the Group, and are therefore 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, the Group would consider incorporating those companies 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 assures the truthfulness, accuracy and completeness of the ESG Report.

The reporting period of the ESG Report is consistent with that stated in the Annual Report 2019 of the Group, which is 1 January 2019 to 31 December 2019 (the "reporting period"). Where necessary, some of the content of the ESG Report goes beyond the aforesaid period.

Reporting Guideline

The ESG Report was prepared in accordance with the *Environmental, Social and Governance Reporting Guide* under Appendix 27 to the *Rules Governing the Listing of Securities* (the "Listing Rules") issued by the Stock Exchange of Hong Kong Limited (the "SEHK"). Moreover, it was prepared based on the principles of materiality, quantitative, balance and consistency to determine and disclose its contents, and is compliant with the "comply or explain" provision set out in the *Environmental, Social and Governance Reporting* Guide by SEHK.

Form of Publication

The ESG Report is published in two language versions — Traditional Chinese and English. If there is any inconsistency between the two versions, the Traditional Chinese version shall prevail. You are welcome to access the Traditional Chinese and English versions of the ESG Report in the PDF format through the Company's website, http://www.tggj.cn/, and SEHK's HKEx news website.

Comments and Feedback

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

1. About the Group

Established in 1981, the Group is a manufacturer of die steel ("DS"), high speed steel ("HSS"), cutting tools and titanium alloy. Upholding the spirit of unified and hard-working, seeking truth and being pragmatic, daring to be outstanding and excellent craftsmanship, the Group focuses on manufacturing DS, HSS, cutting tools and titanium alloy and insists to build its brand with integrity and quality. Through its unique technology, products' advantages and innovative strategy and plan, the Group was honored as one of China's top 500 private enterprises for six consecutive years and as one of the China's top 500 private enterprises in the manufacturing sector for eight consecutive years.

2. Highlight — Fighting the "Disease" Together

The epidemic of novel coronavirus pneumonia has gotten on not only the nerves of the Chinese people but also the people worldwide. It is everyone's responsibility to prevent and control the novel coronavirus pneumonia. The Group has earnestly implemented prevention and control measures of the epidemic, formulated and issued the *Emergency Plan for the Prevention and Control of the Epidemic of Novel Coronavirus Pneumonia* in time based on the principle of "discipline, limit, responsibility". Moreover, the Group has also implemented its internal responsibilities by establishing an emergency leading team for the prevention and control of epidemic. The general manager takes the leading role of the emergency leading team, while division managers, department heads, factory managers, workshop directors, team leaders and the head of the administrative department are the principal person-in-charge. The body temperature of employees is measured and recorded twice a day. In addition, the persons-in-charge of the workshops would require the employees to declare their health conditions on a daily basis. If any abnormalities were found, the concerned people would be required to go to the hospital immediately for diagnosis. Meanwhile, the Group always cares about its employees' well-being. The Group has formulated the management measures and regulations, such as the *Notice of Providing Basic Living Allowances to Employees are Away from Work during the Outbreak of the Epidemic*, and provided basic living allowances to employees.

Apart from the implementation of prevention and control measures against the epidemic, the Group cares about the society and actively fulfills its social responsibilities by donating RMB1.6 million to help win the battle of preventing and controlling the epidemic. Moreover, collaborative work is required to fight against the epidemic and get over difficulties. Therefore, the Group vigorously seized resources and donated a total of 51,000 masks to South Korea, and donated a total of 60,000 masks to its branches and customers in Italy, America, Canada and other places on 10 March 2020.

The Group donated materials to fight against the epidemic

3. Responsibility Management Implemented by Tiangong

3.1 Management Mechanism

Good corporate governance practices are fundamental to corporate development. The Group strives to attain and maintain high standards of corporate governance. To achieve this goal, the Group strengthens its internal policies and procedures, provides employees with continuous training, and improves its operational transparency and accountability to all shareholders. To ensure the compliance with laws and regulations, and to reduce business risks of the Group, the Group has set a good internal control and risk management system. The Board is responsible for the internal control and risk management system of the Group, and reviews its effectiveness and adequacy. How to deal with ESG risks is an issue of business risk control. In response, the Group has established a suitable and effective ESG risk management and internal control system and integrated it into the Group's risk management system [1], so as to be able to actively respond to ESG risks. The Board is responsible for assessing and determining ESG risks, ensuring the effectiveness of ESG risk management and internal control system, and is responsible for the Group's ESG strategy and reporting.

In order to effectively and systematically implement the ESG strategy, and promote developments on ESG work, the Group has built an ESG management mechanism consisting of the Company's senior management and respective functional departments with specific responsibilities. The senior management of the Company is responsible for reviewing the ESG issues of the Group and formulating corresponding action plans, while reporting ESG work to the Board in parallel. Each functional department is responsible for coordinating and implementing ESG-related work. In order to further strengthen the ESG management system, the Group has gradually improved the ESG management mechanism according to its own development status and with reference to the SEHK's guidelines and opinions on fulfilling ESG responsibilities of listed companies. Special employees are designated to ESG work and continuously promote the Group's vision in social responsibility.

[1] For details of the Group's internal control and risk management system, please refer to the relevant disclosure in the 2019 Annual Report.

3.2 Stakeholder Engagement

Keeping smooth communication with various stakeholders is an essential part of the Group to realise sustainable development. The Group could have a better understanding of each stakeholder's expectations by multi-dimensional and regular stakeholder engagement, which enable the Group to make specific work plans and continuously improve itself.

Stakeholders	Expectations	Communication Methods	Communication Frequency	Actions in Response
Shareholders and Investors	Investment returns Corporate governance Regular communication	General meetings Company announcements Regular reports Roadshows	Annual/quarterly/ irregular	• Continuously improving risk management and internal control system; • Enhancing information disclosure and communicating regularly
Government	Compliance with laws and regulations Paying tax according to laws	Supervision and assessments Information disclosure	Regular/irregular	• Strictly complying with national laws and regulations and implementing compliance works; • Proactively cooperating with regulatory departments; • Paying tax according to laws
Customers	High-quality products Quality management Service guarantee	Contracts and agreements Customer service Service feedbacks Customer Annual Conference	Annual/quarterly/ irregular/twice a year	• Continuously improving production management system; • Promoting scientific research innovation and elevating quality and efficiency in production
Employees	Employee rights and benefits Health and safety Promotion and training	Labor contracts Employee conferences Employee activities	Regular/irregular	• Strengthening human resource management system to ensure employee rights and benefits; • Implementing measures relating to employees' occupational health and safety; • Formulating training plans and broadening employees' development path
Suppliers and Other Business Partners	Being fair and just Win-win cooperation	Contracts and agreements Supplier assessments Communication meetings Customer Annual Conference	Annual/irregular/ twice a year	• Guaranteeing the bidding and procurement process to be fair and transparent; • Fulfilling contracts and agreements
Communities	Community development Environmental protection	Community communication Charitable contribution Eco-friendly events	Regular/irregular	• Engaging in the harmonious community development; • Proactively holding charity donation events; • Implementing environmental protection measures

On 8 November 2019, the Group held the Tiangong International Global Customer Annual Conference 2019 with the theme of "remaining true to our original aspiration, and moving forward despite obstacles" and communicated with various stakeholders. Industry Leaders, academic experts, partners, suppliers and serval news media from different countries and regions attended this conference. Participants gave speeches relating to the industry's status and its future development.

Tiangong International Global Customer Annual Conference 2019

Tiangong International Global Customer Annual Conference 2019

3.3 Materiality Assessment

The stakeholders of the Group may have different focus on the Group's environmental and social performance due to their different perspectives. Therefore, the Group conducted a materiality assessment to identify, verify and review ESG topics based on its development direction and the focus of the stakeholders, so as to report the Group's major ESG performance during the reporting period more specifically and respond to the stakeholders' expectations.

There were three major steps of the materiality assessment, including reviewing the previous ESG work and ESG topics, identifying ESG topics, and verifying and reviewing ESG topics. First of all, the Group reviewed the previous ESG work and the past ESG reports. Following this, based on the Group's development status and with reference to SEHK and other sustainability reporting guidelines, the Group identified its ESG topics of this year by taking full consideration of business nature and development strategy together with stakeholders' focus. After the identification of ESG topics, the Group verified and reviewed them to determine the topics to be disclosed and the content of the ESG Report.

The ESG topics to be reported are listed as follows. The ESG Report shows the ESG performance of the Group during the reporting period according to the topics and the relevant requirements of the reporting guideline.

Aspects	Reported ESG topics
Environmental	Emission management Use of resources Environmental protection
Social	Employee rights and benefits Labor standards Health and safety Employee development and training Supplier management Product responsibility Scientific research and innovation Anti-corruption Community investment

4. Compliant and High-quality Products Produced by Tiangong

4.1 Producing High-quality Products

As a manufacturer of DS, HSS, cutting tools and titanium alloy, the Group upholds the development concept of "building a well-established Tiangong with a reputable brand", adheres to the spirit of excellent craftsman to manufacture high-quality products, and makes unremitting efforts to create excellent and high-quality products through innovation and higher standards. The Group has formulated and implemented quality control systems in accordance with the *Quality Management Systems — Requirements of National Standard of the People's Republic of China* ("PRC") (GB/T 19001-2016, identical to ISO 9001:2015, *Quality Management Systems — Requirements)* and has carried out measurement management for product quality and other aspects according to the standards of GB/T 19022-2003/ISO 10012:2003 *Measurement Management System-Requirements for Measurement Process and Measurement Equipment* to guarantee its product quality comprehensively.

The Group's high-quality products are attributed to the Group's meticulous and strict control over the entire manufacturing process. The Group formulated operating procedures for each process and quality control manuals for various types of products, such as the *Management Procedure for New Product Development*, the *Control Procedure for Self-made Unqualified Product* and the *Enterprise Measurement Management Regulation*. A series of quality inspection is conducted during production process from receipt of raw materials until the products are finished. After receiving raw materials, the Group examines them and takes samples for chemical tests to ensure that their quality meets the specified requirements. During the production process, semi-finished products of each stage of production are subject to strict physical and chemical analyses to ensure their production quality. The technology department and quality inspection department of the Group are responsible for obtaining the accreditation of safe technology of the design of new products, new techniques and equipment, and supervising the implementation of the safety technology operation regulations of the production safety procedure of each product to ensure production safety and product quality. A series of quality tests is conducted by the Group for the finished products to guarantee that they meet relevant requirements regarding health and safety, labeling, environmental protection, etc., before entering into the market. As a result of unremitting efforts for high-quality products. The Group has become one of the enterprises in Jiangsu Province which are certified to be in compliance with Chinese Grade 1 Management and Measurement System.

During the reporting period, Jiangsu Tiangong Technology Company Limited successfully obtained the certificate of AS9100 Aviation and Aerospace Quality Management System, marking that a full range of its titanium and titanium alloy products including titanium ingots, titanium plates, titanium tubes, titanium rods and wires, and titanium forgings have the technical strength and qualification to compete in the international aviation and aerospace market.

Gaining the trust and support of customers not only depends on the Group's high-quality products, but also requires good after-sales service, and timely feedback and communication with customers. The Group attaches great importance to customers' feedback and provides pre-sales and after-sales services to them. Additionally, the sales team will visit customers regularly for discussion to understand their opinions. The Group proactively responds to customers ' comments and suggestions on the Group's products and services. Personnel is arranged timely to collect customers' opinions, such as sending customer satisfaction questionnaires through emails on an annual basis, in accordance with the formulated customer service management measures. In addition, through the product authenticity checking system established by the Group, customers can check the authenticity of products through QR codes, digital security query system, and product serial number query system, which not only protects the rights of customers to purchase authentic products, but also safeguards the Group's reputation.

4.2 Driving Innovation and Vitality

The Group believes that innovation and upgrading are the best way to stay competitive and realise the true value of the business. In an increasingly competitive market environment, how to achieve and maintain high-quality development is an important issue that companies need to deal with. In order to tackle this issue, the Group is committed to technological innovation, continuously develops new technologies and new products required by the market, strives to improve its internal management, and stimulates innovation and vitality. The Group encourages its employees to be innovative and open up a new phase of innovation by accelerating the work on research and development of new products, technique innovation, quality control and market services. To further stimulate the continuous innovation among employees, the Group held the 2019 Annual Conference of Technology Innovation Work and Commendation of the Outstanding Worker of the Technology and Innovation Department in November 2019, to summarize and commend the achievement of innovation in 2019. During the reporting period, the Group's "Development and Application of Key Technologies for High-quality Die-casting Die Steels" project won the first prize of the "Metallurgical Science and Technology Award" in 2019 issued by the China Iron and Steel Industry Association and the Chinese Metal Society.

The Group won the first prize of the 2019 "Metallurgical Science and Technology Award" by the China Iron and Steel Industry Association and the Chinese Metal Society with its "Development and Application of Key Technologies for High-quality Die-casting Die Steels" project

2019 Annual Conference of Technology Innovation Work and Commendation of the Outstanding Worker of the Technology and Innovation Department

Powder metallurgy plays a pivotal role in the development of new materials and is a high-end technology in the international metallurgical industry. In November 2019, after more than 20 months of development, China's first powder metallurgy industrial production line and the first domestic powder metallurgy research institute were established in the Group and formally put into production. The Group's powder metallurgy intelligent factory is the only production line in the domestic new materials industry that is capable of scaled production and reaches the level of international high-end new materials. "Constantly improving and overcoming difficulties" is what the Group's powder metallurgy intelligence factory team is doing. In order to manage more systematically, the team has undertaken innovative management for production activities and daily operations on the basis of ensuring that the implementation of the Group's regulations and systems. The team has formulated a fundamental and sound management approach to effectively divide tasks into small pieces for further implementation.

The Company's powder metallurgy intelligent factory team

The Company's powder metallurgy intelligent workshop project (corporate's cloud map)

4.3 Strengthening Supply Management

The Group's procurement mainly includes raw materials such as metals and equipment. Suppliers are not only providers of the Group's procured materials, but also its business partners. It is an essential work in the Group's business development to implement effective supply chain management and to maintain a good cooperative relationship with suppliers so as to reduce supply chain risks. To this end, the Group has formulated and implemented the regulations for bidding and long-term management mechanisms in materials procurement, such as the *Regulation for Administration of Procurement of Supplies and Price Accounting* and the *Management Regulation of Bidding*, to standardize the Group's bidding and material procurement management system so as to ensure the biddings are fair, just and transparent. The Group has established supplier assessment systems and made a supplier list. Regular supplier assessments regarding their environmental and social performance are conducted, including their management level, product quality, after-sale service, and whether environmental and social management measures are in place, etc. By doing so, it is able to safeguard the quality of raw materials and equipment that the Group uses in production, as well as to manage the environmental and social risks posed by suppliers in a better way.

The Group's procurement department holds regular meetings with suppliers to ensure a stable supply of raw materials and in good quality. In addition, The Group will have regular on-site assessments to evaluate suppliers' social responsibility performance. 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. Additionally, the Group would consider the operation location of suppliers and opt to choose local suppliers to reduce the emissions of pollutants due to long-distance transportation.

4.4 Strictly Upholding Compliant Operations

The Group implements the business philosophy of "business starts with integrity" and upholds compliant operations. The Group strictly complies with the applicable laws and regulations, promotes and implements national laws and regulations timely. The Group has formulated and implemented the disciplinary measures for employees and would seriously handle the employee who may be involved in corruption and bribery. The cases shall be transferred to judicial authority under serious circumstances. The Group also regulates bidding to ensure that its process is transparent and open.

The Group requires that employees shall comply with national laws, regulations and policies, and strictly execute the Group's regulations, measures and fundamental rules. By implementing the reward and punishment system, the Group rewards those who comply with laws and regulations, and takes disciplinary actions against those who violate relevant regulations in accordance with the rules. Moreover, the Group requires that business partners shall comply with relevant regulations to ensure the implementation of legal governance, and the employees responsible for procurement shall not have any economic interests with suppliers and shall be honest in performing duties. During the reporting period, in order to further standardize and improve the Group's sales, delivery, invoicing, and payment collection and other related processes, and to eliminate management loopholes, the Group has formulated the *Regulations on Improving Sales, Delivery, and Invoicing Related Processes* and established a finance-warehouses mutual supervision system, whose system procedure is improved by the information center.

The Group launched the education activity with the theme of "remaining true to our original aspiration and keeping our mission firmly in mind", and revisited the "original aspiration", which refers to upholding the spirit of craftsmanship in doing business, managing by applying rules and regulations, strengthening thoughts, and awareness in disciplines and rules.

Regarding the information of the Group and its customers, the Group complying with the relevant archive management measures and confidentiality system for its proper management, and implements network information security to ensure the data and information is secured.

5. Environmental Protection and Clean Production of Tiangong

5.1 Promoting Energy-saving Production

Promoting energy conservation, advancing the development of a water-saving society, and actively responding to global climate change are missions listed in the *13th Five-Year Plan for the National Economic and Social Development of the PRC* ("13th Five-Year Plan"). It put forward the need to establish a resource-saving and centralized recycling philosophy, strengthening whole process management, and greatly improving comprehensive resource utilization efficiency, and effectively controlling carbon emissions from the power generation and steel industries.

During the operations, the major resources used by the Group include electricity, natural gas, water resource, and scrap steel and other raw materials for production. The Group actively responds to national policies on energy conservation, environmental protection, and climate change, and strictly abides by laws and regulations on resource utilization, such as the *Cleaner Production Promotion Law of the PRC* and the *Energy Conservation Law of the PRC*. The Group continues to strengthen the establishment of internal energy-saving management systems and regulations. Assessments and evaluation for the responsibility of energy-saving targets are actively carried out. The Group systematically records and analyses its energy usage so as to formulate energy-saving plans and assigning specific energy-saving tasks to teams. In order to raise employees' awareness of energy conservation and environmental protection, the Group organises education on water saving and electricity conservation.

Energy saving and emission reduction are important practices to control greenhouse gas ("GHG") emissions and to actively respond to climate change. The Group's GHG emissions are mainly generated from the combustion of natural gas and the use of electricity. In addition to the energy-saving measures mentioned above, the Group advocates reasonable use of electricity and has formulated the *Management Measures of Saving Electricity* to strengthen electricity management. The Group is equipped with lighting fixtures according to the specific lighting needs in different areas, replaces the current lights with energy-saving lights gradually so as to avoid wasting electricity and decrease electricity consumption per unit of production. In addition, the Group requires employees to properly operate equipment in accordance with operating procedures to prevent equipment from idling and reduce energy loss, and the GHG emissions caused by it. During the reporting period, the Group's total GHG emission intensity decreased by 3.00% compared to the previous reporting period.

In addition, during the reporting period, the Group entered into the *Strategic Framework Agreement* of Comprehensive Energy Service with Danyang Power Supply Company of the State Grid. By adopting the advance energy and information technologies, a modern comprehensive energy service system has been established in the Group. Moreover, by implementing the renovation project of wind turbines, approximately 660,000 kilowatt-hours electricity can be saved on an annual basis.

In terms of water sourcing, the Group takes full consideration of water sourcing during projects' design stage and investigates the richness of local water resources. The Group's water consumption mainly comes from municipal water supplies and wells, and there are no difficulties with water sourcing. In order to increase water utilization efficiency, a proportion of wastewater treated by biochemical measures at the wastewater treatment plant is reused as cooling water in production facilities. A water recycling system is also adopted by the Group. During the reporting period, the recycled water was approximately 110,010.00 metric tons.

Regarding the use of raw materials for production, the Group mainly uses scrap steel and grinding swarfs for steel smelting and production. Grinding swarfs are recycled and reused for steel production of the Group, which greatly increases the utilization rate of the raw materials. During the reporting period, the Group reused about 55,437.41 metric tons of grinding swarfs.

5.2 Strictly Implementing Emission Management

Building a beautiful China is an aspirational goal for Chinese people, and it requires well-planned green development. To this end, China has continuously increased its efforts to address environmental issues. Through the issuance of the *Opinions of the Central Committee of the Communist Party of China and the State Council on Strengthening the Ecological and Environmental Protection in All Aspects and Firmly Winning the Battle of Preventing and Controlling Environmental Pollution*, and the *Three-Year Action Plan to Win the Blue Sky Defence Battle* and other relevant requirements, plans and arrangement were made to strengthen ecological environmental protection and resolutely fight against pollution. In addition, in order to promote the steel industry's high-quality development, to promote industrial transformation and upgrade, and to help win the blue sky defense battle, five ministries and commissions, including the Ministry of Ecology and Environment of the PRC, jointly issued the *Opinions on Promoting the Implementation of Ultra-Low Emissions in the Steel Industry* in 2019, which sets targets of ultra-low emission transformation for iron and steel enterprises, and formulates requirements for organised and fugitive emissions of air pollutants from iron and steel enterprises.

The Group actively responds to relevant national policies on emission management, continuously strengthens safety and environmental protection works, and implements specific environmental protection management tasks. The Group has established a leading group of environmental protection management to advance safety and environmental protection work with the strictest standards and highest requirements, and conducted a comprehensive and thorough investigation of possible pollution sources. The leading group consists of various cadres of the Group, forming a "supervisor-deputy supervisor-team members" management structure, and formulates optimization and rectification measures for possible pollution sources such as dust, solid waste, spent oil, wastewater, and noise to ensure compliance with the relevant national and provincial environmental protection standards without sparing any efforts.

In order to implement the management of environmental protection matters in production and operation, the Group has formulated the *Environmental Protection Management Measures* in accordance with the applicable national laws and regulations relating to environmental protection, which includes the management procedures about prevention and control of water pollution, air pollution, noise, and wastes, and the use of resources. Moreover, Tiangong Aihe Company Limited and Jiangsu Tiangong Tools Company Limited have been certified with GB/T 24001-2016/ISO 14001:2015 *Environmental Management System-Requirements with Guidance to Use* in 2017.

5.2.1 Air pollutants

The air pollution generated from the operation of the Group is primarily due to natural gas combustion. The Group has completed the renovation of boilers and furnaces, where coal is replaced with natural gas as the fuel source, reducing air pollution during their operation. Efficient pollutant treatment equipment is also installed to ensure emissions meet the relevant national and steel industry emission standards. In addition, dust and oil mist are generated from the operation of the Group. Highly efficient dust treatment and oil mist collection devices have been installed on-site accordingly to reduce their impacts on the environment and employees' health. Regular maintenance has been conducted by the equipment maintenance department of each workshop to ensure the good operation of equipment and prevent fugitive emissions and extra energy consumption due to equipment malfunction.

In pursuance of reducing its environmental impacts, the Group enhanced dust treatment efficiency through the following practices: corrective measures are fully implemented to the dust removal equipment in workshops to improve dust removal efficiency; enclosing ash yards in workshops to prevent fugitive dust emission; investigating whether discharge outlets of exhaust gas and leak-proof measures meet environmental protection requirements; ensuring the normal operation of the dust removal equipment and the tightness of the dust removal system, and repairing it if any fugitive dust emission is found; improving and renovating the exhaust system to enhance oil mist treatment efficiency.

5.2.2 Wastewater

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 complies with relevant standards, such as the *Integrated Wastewater Discharge Standard* (GB8978-1996). The supervision and monitoring of wastewater discharge are implemented by the Group in accordance with the *Implementation Procedure of Monitoring and Measurement*. Through timely monitoring of wastewater, the Group follows specific indicators of pollutant discharge in wastewater for confirming the status of compliance. If the indicators exceed the levels specified by the standard, the reasons for the exceedances will be investigated immediately, and corrective measures will be formulated. Verification and monitoring will be conducted at the same time until the discharge meets the standard. Moreover, both the wastewater discharge pipeline and treatment facility have adopted leakage prevention measures to prevent wastewater leakage and thus their impacts on the surrounding.

5.2.3 Solid Wastes

During operation, the solid wastes generated by the Group include non-hazardous wastes, such as melting slag, waste paper, etc., and hazardous wastes, such as spent oil (including spent lubricating oil and waste mineral oil), the dust collected by the dust collection (removal) device during production, acidic and alkaline waste, etc. The Group has implemented environmental protection measures in accordance with relevant national and local environmental protection standards to ensure the solid waste treatment meets relevant requirements. Under the leadership of the leading group of environmental protection management, specific personnel are arranged to handle wastes and a complete waste ledger is established in accordance with relevant requirements, and the waste data collection system is improved. At the same time, specific personnel are responsible for the implementation of anti-corrosion and leakage prevention measures in the waste storage areas and ensures compliance with relevant environmental requirements.

The waste disposal methods of the Group are listed as follows:

	Hazardous wastes	**Non-hazardous wastes**
Treatment principle	Reduce, reuse and recycle	
Treatment methods	Hazardous wastes are properly stored in strict compliance with dangerous goods management regulations and handed over to qualified third parties for treatment. The spent lubricating oil produced from operation of the Group is reused after being treated in the spent lubricating oil treatment plant to reduce its generation.	Non-hazardous wastes are divided into recyclable and non-recyclable wastes. 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 brick factories and cement plants for brick and cement production. Domestic wastes are collected and treated by the third parties entrusted by the Group.

5.2.4 Noise

The Group has formulated the *Administrative Procedures on Prevention and Control of Noise Pollution* and conducted noise assessment in the workshops. A series of measures to mitigate noise impact has been untaken, such as prioritising the use of quiet equipment, to ensure the noise from the production of the Group complies with the *Emission Standard for Industrial Enterprises Noise at Boundary* and the *Hygienic Standards for the Design of Industrial Enterprises*. The Group shall arrange the operations with high noise levels in the daytime as far as possible to avoid affecting residents' daily life in the evening.

5.3 Environmental Key Performance

As of the end of the reporting period, the main environmental key performance of the Group is listed as follows:

Indicators	Units	2019 [2]	2018
Amount of products (steel and titanium alloy)	Metric tons	**201,136.90**	196,015.68
Air pollutants [3]			
Sulfur oxides emissions	Metric tons	**0.70**	0.51
Nitrogen oxides emissions	Metric tons	**64.88**	66.45
GHG [4]			
Scope 1: direct emissions	Metric tons	**74,878.59**	76,813.56
Scope 2: indirect emissions	Metric tons	**429,286.91**	429,708.61
Total GHG emissions	Metric tons	**504,165.50**	506,522.17
GHG emissions intensity	Metric tons/metric tons of products	**2.51**	2.58
Non-hazardous wastes [5]			
Melting slag	Metric tons	**29,856.00**	34,604.86
Waste paper	Metric tons	**151.48**	149.40
Total amount of non-hazardous wastes	Metric tons	**30,007.48**	34,754.26
Intensity of non-hazardous wastes	Metric tons/metric tons of products	**0.15**	0.18
Hazardous wastes			
Acidic and alkaline wastes	Metric tons	**24,581.00**	28,087.00
Other hazardous wastes [6]	Metric tons	**684.34**	26.28
Total amount of hazardous wastes	Metric tons	**25,265.34**	28,113.28
Intensity of hazardous wastes	Metric tons/metric tons of products	**0.13**	0.14

2 The data of the main environmental key performance of 2019 were sourced from the production factories of the Group located at Danyang City and Jurong City.

3 The calculations of air pollutants were set out based on the *Pollution Generation and Discharge Coefficient Manual of Industrial Pollution Sources in the First National Census of Pollution Sources* and the *Road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial)*. The data used in the calculation were sourced from the recorded data of the Group and conservative estimates were made based upon historical performance data or benchmarking with similar facilities.

4 The GHG emissions are calculated based on the Group's use of natural gas, gasoline and electricity, based on the *Guideline of the Greenhouse Gas Emissions Accounting and Reporting for the Chinese Steel Production Enterprise (Trial)* and the *2011 and 2012 Chinese Regional Grid Average Carbon Dioxide Emission Factor* published by National Development and Reform Commission of the PRC. The data used in the calculation were sourced from the recorded data of the Group and conservative estimates were made based upon historical performance data or benchmarking with similar facilities.

5 The data of waste paper and total amount of non-hazardous waste of 2018 were revised. The data of waste paper of 2018 were recalculated based on the calculation scope of the data of 2019. The data shall be subject to those listed here.

6 The data of 2019 included the dust collected by the dust collection (removal) device during production, spent lubricating oil, waste mineral oil, oily sludge and other hazardous wastes.

Indicators	Units	2019 [2]	2018
Use of resources			
Water consumption	Metric tons	**275,512.00**	356,519.00
Intensity of water consumption	Metric tons/metric tons of products	**1.37**	1.82
Electricity consumption	Megawatt hours	**610,215.93**	610,815.37
Intensity of electricity consumption	Megawatt hours/metric tons of products	**3.03**	3.12
Natural gas consumption	Ten thousand cubic meters	**3,458.45**	3,549.80
Intensity of natural gas consumption	Ten thousand cubic meters/ metric tons of products	**0.02**	0.02
Packaging materials used	Metric tons	**2,905.87**	2,820.00

6. A Talent Team Built by Tiangong

6.1 Protecting Employees' Rights and Benefits

To ensure the standardization, discipline, and efficiency of the human resources management of the Group and to protect the rights and interests of employees, the Group have formulated and implemented the *Human Resources Management System*, which includes recruitment management, new employee onboarding process, promotion management regulations, employee turnover management measures, employee benefits, staff training management measures, etc. The Group aims to build a high-quality, united team basing on the employment concept of "pragmatism, loyalty, responsibility, success, innovation, shouldering". Moreover, the Group has built an environment that has reasonable working hours, sound labor contract system and recruitment system, comprehensive promotion mechanism and remuneration and benefits policy, for employees to have a good sense of stability.

The Group advocates equality and diversity in the employment policies, and it does not discriminate against employees because of race, nationality, colour, gender and other conditions. The Group established a sound talent selection mechanism by standardizing recruitment management according to the *Recruitment Policy* under the principle of "openness, fairness, competition, competitive selection and voluntary". During recruitments, the human resources department of the Group verifies the information of every candidate by checking his/her documents, such as identity card, diploma and strictly abides by the applicable laws and regulations such as the *Law of the PRC on the Protection of Minors* to prevent hiring minors under 16 years old. The Group enters into individual employment contracts with its employees according to laws to make provision of wages, employee benefits and workplace safety and grounds for termination, etc.

The Group has formulated the *Promotion Management Regulations* to standardize the management procedures for personnel rank promotion, so as to provide employees with a fair, just and standardized promotion opportunity and competition platform, which creates a positive working atmosphere for employees. In order to fully inspire every employee's motivation in different positions, the Group established and enhanced the qualification-based job management system and compensation system. The Group has formulated the *Compensation Management Regulations for Technical and Management Position* and the *Compensation Management Regulations for Administrative Management Position*, which stipulate the compensation structure and its adjustment standard of employee's position. 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 has also formulated the *Regulations on Employee Leaves* to ensure that employees are legally entitled to take paid leaves and other public holidays and they are also entitled to take marriage leaves, maternity leaves, and bereavement leaves. Also, the Group has formulated the attendance management system, which legally stipulates the working hours of employees and reasonable production arrangements to ensure their rest, and strictly prohibits the occurrence of forced labor. When a contract of employment is terminated, the termination follows relevant procedures according to the *Management Measures of Termination of Employment* and the labor contracts.

In order to protect the rights and benefits of employees, the Group holds employees' representatives conference every year to proactively acquire comments of employees' representatives to the current status of the Group. On 26 March 2019, the Group held the Second Meeting of the Second Employees' Representatives Conference of Tiangong International and proactively communicated with employees' representatives. By doing so, it is able to fulfil employees' rights to know and to speak.

A group photo of the Second Meeting of the Second Employees' Representatives Conference of the Group

The Second Meeting of the Second Employees' Representatives Conference of the Group

6.2 Safeguarding Health and Safety

The responsibility for safety in production is of great importance. Safe production is not only a top priority for the Group's production but also a major issue that relates to the safety of employees' lives. The Group always upholds the safety production principle of "safety first, prevention oriented" and 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 to ensure safe production. Tiangong Aihe Company Limited and Jiangsu Tiangong Tools Company Limited have been certified with GB/T 28001-2011/OHSAS 18001:2007 *Occupational Health and Safety Management System-Requirements* in 2017.

In order to ensure work safety of the Group and implementation of safety measures, the Group takes full consideration of relevant safe production regulations to build an occupational health and safety management system of the Group, which is formed by the formulated work safety responsibility system, safety management system, safety inspection system, labor equipment management system, fire control management system, protection regulation for female workers, potential hazards control measure, accident investigation and handling management measure and other safety management measures. The Group has also established a work safety responsibility system to clarify each person's work safety responsibility and implement safety management. Other than holding meetings for safety management discussion, specific employees are in place for the workplace safety inspection and eliminate workplace hazards or other problems by regular inspections and handling non-compliance. The Group has formulated hazards investigation work plans to discover and identify unsafe factors in production and prevent accidents from occurring. Various kinds of safety inspections, including comprehensive, professional, seasonal, holidays, and daily inspections, are implemented to protect employees' lives and keep their properties safe.

On 1 April 2019, the *Regulations on Emergency Response to Production Safety Incidents* came into effect in China, which strengthens the leading position of emergency preparedness in emergency management, and establishes the responsibilities of relevant parties involved in emergency production safety incidents. In response, the Group strengthened emergency management in production operations by establishing a responsibility system for providing emergency response to safety accidents during production. The Group has formulated emergency rescue plans according to the *Work Safety Law of PRC*, the *Fire Protection Law of the PRC* and other laws and regulations and stipulated that the safe production leading group shall uniformly command the emergency rescue work. Moreover, the responsibilities of the emergency rescue teams such as the safety production leadership team, fire rescue team, crowd evacuation team, external communication team, and traffic security team, etc., have been stipulated at the same time. Fire drills are held to improve employees' emergency responsiveness on a regular basis.

In addition, the Group requires that each employee must enter into a safety production commitment after receiving relevant safety education and being familiar with all contents in the safety production commitment in accordance with the requirements of the safety education system. At the same time, employees must abide by the Group's safe operating procedures for various equipment's operation, such as safe operating procedures for electrician and heating furnace safe operating procedures, which provide safety guidance to operators to ensure operation safety. The Group has also provided complete and reliable safety facilities in operating sites and has set up warning signs for occupational hazards to strengthen the safety management of the operating environment.

The Group actively improves the working conditions of employees and distributes labor protection equipment to employees to prevent occupational diseases. For example, the Group has equipped employees with qualified masks or dust prevention respirators. Those working in workplaces that have high concentration of smoke and dust are required to wear them. In addition, the Group has organised health checks for employees and carried out various forms of safety education and training activities to strengthen employees' safety awareness.

6.3 Strengthening Team-building

To build a "skilful, capable, and successful" team requires a positive working environment and an effective employee training mechanism. Therefore the Group is committed to providing employees with a dynamic and progressive working environment with clear development pathways by constantly improving employee training mechanisms, and organizing various training activities to enhance employees' basic and professional knowledge so as to broaden their career development paths.

For new employees, the Group has formulated and implemented the *Orientation Training Plan for New Employee of Tiangong International Company Limited* and the *Interim Measures for "Master-apprentice" Programs* to facilitate new employees to be familiar with and adapt to the culture, policies, and code of conduct of the Group quicker and better, and are able to do the job. The orientation training includes introductions to the Group's management philosophy and corporate culture, technology and application of tools, safe production management, knowledge in quality management, and safe operation rules and necessary precautions, etc. The Group actively organises excellent training teams. The Human Resources Department organises and implements the training of new employees, and the team of trainers is composed of senior employees of the Group and external experts hired by the Group. Moreover, the Group equips each training class with a part-time class teacher, so that employees can better develop their professional knowledge and skills.

In addition, the Group promotes employees' development and makes full use of the human resources in the Group by formulating the *Interim Measures for "Master-apprentice" Programs* in the way of "deliver, help and teach face to face". Under this program, experienced employees are 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. Both the masters and apprentices could make progress together through discussion and working together.

On 14 April 2019, the Group held a training with the theme of "responsibility goes beyond capability" for the management in accordance with the training plan, where the Group taught the employees how to manage and the division and cultivation of management responsibilities by a large number of cases.

The Group held a training with the theme of "responsibility goes beyond capability"

The Group held a training with the theme of "responsibility goes beyond capability"

7. Community and Partners that Tiangong Works with

7.1 Creating Colourful Life

Apart from holding training of professional knowledge and skills, the Group always pays attention to employees' physical and mental health. In order to enrich employees' mental life, the Group holds various employee activities and lectures on general knowledge to create a colourful working and living atmosphere so as to enhance the team's cohesion.

In the afternoon of 18 July 2019, the Group grandly held the "Tiangong International First Poetry Competition", in which more than 500 employees from various positions of the Group participated. This event not only enabled the employees of the Group to further understand the "Chinese spirit and Tiangong spirit behind poetry", but also further promoted the construction of corporate culture.

The first poetry competition of the Group

On 4 May 2019, the Group organised a series of activities for the Youth Day, such as enabling employees of the Group to know more about history, culture and nature, and holding team-building activities. These activities not only let employees of the Group feel the charm of art and culture, but also actively unified the youth of the Group by establishing a platform for making contact and communication.

Walking into the Zhuzi Culture Museum, one of the Youth Day activities of the Group

A team-building activity in Nanshan, Zhenjiang, one of the Youth Day activities of the Group

7.2 Delivering Enterprise's Care

The Group, as a part of the society, keeps in mind its corporate social responsibility during development, and always proactively fulfills its social responsibility, and contributes to the society. For many years, the Group has actively participated in charitable activities such as social donations and has established an assistance fund for those employees suffered from severe illness. Moreover, the Group has donated RMB500,000 to Nanjing Normal University Education Development Foundation every year to students in poverty since 2007. During the reporting period, the Group was honoured in the second "Danyang Charity Award — the Most Outstanding Caring Enterprise for Charitable Donation".

In addition, the Group strongly supports local sports events in Hong Kong. The Group sponsored a football friendly match held on 12 January 2019, and supported the printing of commemorative scarves and their delivery to the senior citizens.

A photo of the football friendly match

Commemorative scarves of the football friendly match.

8. List of Complied ESG-related Laws and Regulations

Aspects of the *ESG Reporting Guide*	The laws and regulations that have a significant impact on the Group that the Group complies with (including but not limited to)	The performance during the reporting period
Environmental		
Aspect A1: Emissions	The *Environmental Protection Law of the PRC*, the *Atmospheric Pollution Prevention and Control Law of the PRC*, the *Water Pollution Prevention and Control Law of the PRC*, the *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste*, the *Law of the PRC on Prevention and Control of Pollution from Environmental Noise*, the *Environmental Protection Tax Law of the PRC*, the *Law of the PRC on Appraising of Environment Impacts*, and the *Interim Measures of Jiangsu Province on Administration of Hazardous Wastes Management*	No violation of laws and regulations that have a significant impact on the Group relating to air and GHG emissions, discharges into water and land, and generation and disposal of waste
Social		
Aspect B1: Employment	The *Labor Law of the PRC*, the *Labor Contract Law of the PRC*, the *Trade Union Law of the PRC* and the *Special Rules on the Labor Protection of Female Employees*	No violation of laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare
Aspect B2: Health and Safety	The *Work Safety Law of the PRC*, the *Law of the PRC on the Prevention and Control of Occupational Diseases*, the *Special Equipment Safety Law of the PRC*, the *Standards Labor Protection Articles of Jiangsu Province* and the *Interim Provisions on the Inspection, Elimination and Control of Potential Work Safety Risk*	No violation of laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards
Aspect B4: Labor Standards	The *Labor Law of the PRC* and the *Law of the PRC on the Protection of Minors*	No violation of laws and regulations that have a significant impact on the Group relating to the prevention of child labor and forced labor
Aspect B6: Product Responsibility	The *Work Safety Law of the PRC*, the *Recommendation Concerning Safety in the Use of Chemicals at Work*, the *Advertising Law of the PRC* and the *Trademark Law of the PRC*, and the *Law of the PRC on the Protection of Consumer Rights and Interests*	No violation of any laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress
Aspect B7: Anti-corruption	The *Criminal Law of the PRC*, the Listing Rules and fair competition rules	No violation of laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering

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General Disclosures and KPIs	Description	Relevant Chapter(s) in the ESG Report 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	5.1, 5.2 and 8
KPI A1.1	The types of emissions and respective emissions data	5.3
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	5.3
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	5.3
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	5.3
KPI A1.5	Description of measures to mitigate emissions and results achieved	5.1 and 5.2
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	5.2
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	5.1
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)	5.3
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	5.3
KPI A2.3	Description of energy use efficiency initiatives and results achieved	5.1
KPI A2.4	Description of whether there are any issues in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	5.1
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	5.3

General Disclosures and KPIs	Description	Relevant Chapter(s) in the ESG Report or Explanation
Aspect A3: Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	5.1 and 5.2
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	5.1 and 5.2
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, anti-discrimination, and other benefits and welfare	6.1 and 8
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	6.2 and 8
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	6.3
Aspect B4: Labor 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 labor	6.1 and 8
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	4.3

General Disclosures and KPIs	Description	Relevant Chapter(s) in the ESG Report or Explanation
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, labeling and privacy matters relating to products and services provided and methods of redress	4.1, 4.4 and 8
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	4.4 and 8
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	7.2

DIRECTORS & SENIOR MANAGEMENT

Executive Directors

Mr. ZHU Xiaokun, aged 63, 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 47, 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 51, 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 55, 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 76, 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 49, 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 currently a managing director of DLK Advisory Limited, and is an independent non-executive director of Geely Automobile Holdings Limited (Stock Code of HKEx: 175), CMBC Capital Holdings Limited (formerly known as Skyway Securities Group Limited, Stock Code of HKEx: 1141), an independent director of Gridsum Holding Inc. (GSUM.US). He was an executive director of both Guojin Resources Holdings Limited (Stock Code of HKEx: 630) (resigned in 2011) and AMVIG Holdings Limited (Stock Code of HKEx: 2300) (resigned in 2010), a non-executive director of Kam Hing International Holdings Limited (Stock Code of HKEx: 2307) (resigned in 2011), and an independent non-executive director of U-Home Group Holdings Limited (Stock Code of HKEx: 2327) (resigned in 2015) and Southern Energy Holdings Group Limited (formerly known as China Unienergy Group Limited, Stock Code of HKEx: 1573) (resigned in 2019).

Mr. WANG Xuesong, aged 48, 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 36, 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 54, 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 37, 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 56, 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 40, 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.

CORPORATE GOVERNANCE REPORT

The Group strives to attain and maintain high standards of corporate governance and to apply the principles set out in the Corporate Governance Code (the "Code") set out in Appendix 14 to the 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 2019, 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)*	5/6	N/A	1/1	1/1
Mr. Wu Suojun *(Chief executive officer)*	6/6	N/A	N/A	N/A
Mr. Jiang Guangqing	6/6	N/A	N/A	N/A
Mr. Yan Ronghua	6/6	N/A	N/A	N/A
Mr. Gao Xiang	6/6	2/2	1/1	1/1
Mr. Lee Cheuk Yin Dannis	6/6	2/2	1/1	1/1
Mr. Wang Xuesong	6/6	2/2	1/1	1/1

General Meetings With Shareholders

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

The annual general meeting ("AGM") was held on 24 May 2019. Mr. Zhu Xiaokun acted as the chairman of the AGM.

The attendance records of the Directors at the shareholders' meetings held in the year 2019 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. Gao Xiang and Mr. Lee Cheuk Yin, Dannis, the Independent Non-executive Director, were 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 52 to 54 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 2019, 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 2019.

The participation by individual Directors in the continuous professional development during the year is recorded in the table below:

	Attending training, seminars, conference or forums	Reading materials, journals and updates relating to corporate governance, regulatory development and other relevant topics
Executive Directors		
Mr. Zhu Xiaokun	✓	✓
Mr. Wu Suojun	–	✓
Mr. Jiang Guangqing	–	✓
Mr. Yan Ronghua	–	✓
Independent non-executive Directors		
Mr. Gao Xiang	–	✓
Mr. Lee Cheuk Yin Dannis	✓	✓
Mr. Wang Xuesong	–	✓

For the financial year ended 31 December 2019, 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 2019, 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 19 March 2020 to consider and review the 2019 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 2019 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 2019 and one meeting to date in 2020.

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 2019 and one meeting to date in 2020.

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 2019, the remuneration of the senior management is listed as below by band:

Band of remuneration	No. of persons
RMB1,000,000 to RMB2,000,000	2
RMB0 to RMB1,000,000	10

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 one meetings in 2019 and one meeting to date in 2020. 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 2019. 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 2019, the total remuneration paid or payable to KPMG was RMB2,650,000, including RMB2,650,000 for consolidated financial statements audit service and nil 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 2019.

Dividend Policy

The Group adopted the Dividend Policy on January 2019. It aims to manage its optimal capital efficiently and generate long-term sustainable value for shareholders, while balancing operational and regulatory requirements. It also aims to grow its dividend in line with business growth and to share the benefits of its success with its shareholders.

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board and subject to any applicable restrictions, laws, rules and regulations.

Given the extent of the Novel Coronavirus (COVID-19) may impact on the global economy is currently difficult if not impossible to estimate, the Company will not conclude any pre-determined dividend payout ratio for the coming financial year(s).

In proposing any dividend payout, the Board shall take into account of the following factors:

- the actual and expected financial performance of the Group;
- the general financial position of the Group;
- the working capital requirements, capital expenditure requirements and future development strategy of the Group;
- restrictions imposed by any debt covenants;
- the general market conditions;
- the business cycle of the Company's business;
- the potential impact of Novel Coronavirus (COVID-19) on the products and operation of the Group; and
- any other factors that the Board deems appropriate.

Any final dividends declared by the Company must be approved by an ordinary resolution of the shareholders at an annual general meeting and must not exceed the amount recommended by the Board.

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 2019.

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 17 to the financial statements.

Financial Statements

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 91 and 92.

The financial position of the Group as at 31 December 2019 is set out in the consolidated statement of financial position of the Group on pages 93 to 94. The financial position of the Company as at 31 December 2019 is set out in note 36 to the financial statement on page 182.

The cash flows of the Group for the year ended 31 December 2019 are set out in the consolidated cash flow statement on pages 97 to 98.

Results and Appropriations

The Board proposed a final dividend payment of RMB0.0545 per share for the financial year ended 31 December 2019 (2018: RMB0.0357).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB676,000 (2018: RMB1,317,000).

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 14 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 32 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 2019, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,483,726,000 (2018: RMB1,513,695,000).

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 32 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 pages 7 to 21 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 40 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 21 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 2019, 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	817,190,000 (L)	31.81
	Beneficial owner	3,800,000 (L)	0.15
			31.96
Wu Suojun	Beneficial owner	1,600,000 (L)	0.06
	Beneficial owner[3]	800,000 (L)	0.03
Yan Ronghua	Beneficial owner	1,000,000 (L)	0.04
	Beneficial owner[3]	500,000 (L)	0.02
Jiang Guangqing	Beneficial owner	600,000 (L)	0.02
	Beneficial owner[3]	300,000 (L)	0.01
Gao Xiang	Beneficial owner[3]	150,000 (L)	0.01
Lee Cheuk Yin, Dennis	Beneficial owner[3]	150,000 (L)	0.01
Wang Xuasong	Beneficial owner[3]	150,000 (L)	0.01

Notes:

As at 31 December 2019,

(1) Tiangong Holdings Company Limited ("THCL") held 773,258,000 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 773,258,000 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 2019, 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 interests and capacity	Ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted)(11)
Yu Yumei(1)	Spousal interest(2)	820,990,000 (L)	31.96	31.59
THCL(1)	Beneficial owner	773,258,000 (L)	30.10	29.75
Zhu Zefeng	Interests of controlled corporations(3)	615,768,521 (L)	23.97	23.69
	Beneficial owner	1,000,000 (L)	0.04	0.04
	Beneficial owner	500,000 (L) (4)	0.02	0.02
			24.03	23.75

Substantial shareholders' name	Nature of interests and capacity	Ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted)[11]
Niu Qiu Ping	Spousal interest[5]	617,268,521 (L)	24.03	23.75
Sky Greenfield Investment Limited	Beneficial owner[3]	615,768,521 (L)	23.97	23.69
Liu Yang	Interests of controlled corporations[6]	155,492,000 (L)	6.05	5.98
Atlantis Capital Holdings Limited	Interests of controlled corporations[6]	155,492,000 (L)	6.05	5.98
Atlantis Investment Management Limited	Beneficial owner[6]	155,492,000 (L)	6.05	5.98
Atlantis Investment Management (Ireland) Limited	Beneficial owner[6]	20,492,000 (L)	0.80	0.79
Riverwood Asset Management (Cayman) Ltd.	Investment Manager[7]	135,000,000 (L)	5.25	5.19
北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd.*)	Interests of controlled corporations[8]	150,000,000 (L)	5.84	5.77
深圳市安鵬股權投資基金管理有限公司 (Shenzhen An Peng Equity Investment Fund Management Co., Ltd*)	Beneficial owner	150,000,000 (L)	5.84	5.77
諾安基金管理有限公司 — 諾安彩虹十五號資產管理計劃 (BOC-Lion Rainbow No. 15 Fund*)	Trustee[9]	150,000,000 (L)	5.84	5.77
Jiangsu Shagang Group Co., Ltd	Interests of controlled corporations[10]	150,000,000 (L)	5.84	5.77
Shagang International (Hong Kong) Co., Limited	Beneficial owner	150,000,000 (L)	5.84	5.77

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

(5) 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.

(6) Atlantis Investment Management (Ireland) Limited and Atlantis Investment Management (Hong Kong) Limited are wholly-owned by Atlantis Capital Holdings Limited which is in turn wholly-owned by Liu Yang.

(7) Riverwood Asset Management (Cayman) Ltd. is wholly-owned by Liu Yang.

(8) 深圳市安鵬股權投資基金管理有限公司 Shenzhen An Peng Equity Investment Fund Management Co., Ltd ("An Peng Fund") is a wholly-owned company of 北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd*).

(9) 諾安基金管理有限公司 — 諾安彩虹十五號資產管理計劃 Lion Rainbow No. 15 Fund is a single client asset management scheme invested and established by An Peng Fund with 諾安基金管理有限公司 Lion Fund Management Co., Ltd.* as the asset manager.

(10) Shagang International (Hong Kong) Co., Limited, is a wholly-owned company of Jiangsu Shagang Group Co., Ltd.

(11) As of the date of this report, 30,000,000 share options granted under the Share Option Scheme of the Company were vested on 31 March 2020 pursuant to which 30,000,000 ordinary shares may be issued. For further details, please refer to the paragraph headed "Share Option Scheme".

* For identification purpose only

(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

(L) Represents long position.

Note:

(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".

Loan Agreement with Specific Performance Obligation

In accordance with the continuing obligation set out in Rule 13.21 of the Listing Rules, the following are the details of the loan agreement with covenants relating to specific performance on the controlling shareholders of the Company as at the date of this report pursuant to Rule 13.18 of the Listing Rules thereof.

On 16 January 2020, the Company, as a borrower (the "Borrower") entered into a facility agreement (the "Facility Agreement") with a licensed bank in Hong Kong relating to:

— 15 months term loan facility amounted to USD15,000,000;

— 1-year dividend loan facility amounted to HKD127,702,295; and

— Business card facility amounted to USD300,000

Pursuant to the Facility Agreement, Mr. Zhu Xiaokun and Mr. Zhu Zefeng, the controlling shareholders of the Company, undertake to maintain beneficiary interests (direct and indirect) of no less than 45% shareholdings of the Company as long as the Company has facility at the bank (the "Specific Performance Obligation").

As at the date of this report, Mr. Zhu Xiaokun and Mr. Zhu Zefeng beneficially own approximately 55.96% of the issued share capital of the Company.

Breach of the Specific Performance Obligation may lead to the bank declaring the commitments to be cancelled and/or declaring all outstanding amounts together with interest accrued and all other sums payable by the Company to be immediately due and payable.

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 52 to 54.

Final Dividend and Closure of Register of Members

The register of members of the Company will be closed from 25 May 2020 to 28 May 2020 (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 28 May 2020, 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 22 May 2020.

The Board has resolved on 20 March 2020 to recommend the payment of a final dividend of RMB0.0545 per share for the year ended 31 December 2019 (2018: RMB0.0357) to shareholders of the Company whose names appear on the register of members of the Company on 5 June 2020. The register of members will be closed from 8 June 2020 to 11 June 2020, both days inclusive, and the proposed final dividend is expected to be paid on or before 24 July 2020. 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 28 May 2020. 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 5 June 2020.

Share Option Scheme

The Company adopted a share option scheme (the "2007 Share Option Scheme") on 7 July 2007.

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, 56,911,000 options granted under the 2007 Share Option Scheme were cancelled and lapsed and no options granted under the 2007 Share Option Scheme remained outstanding and exercisable.

A new share option scheme of the Company was approved by the Company in the annual general meeting held on 26 May 2017.

The purpose of the Share Option 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 Share Option 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 Share Option 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 Share Option Scheme.

2. The maximum number of shares over which options may be granted under the Share Option 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 8.6% of the issued share capital of the Company as at the date of this report.

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

4. The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant date of grant (being the date on which the Board resolves to make an offer of option to the relevant grantee).

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

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

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

8. The Share Option Scheme shall be valid and effective till 24 May 2027.

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 certain Directors, employees and consultants of the Company in respect of their services to the Group. 50% of these share options would be vested on 31 March 2019 if the consolidated audited net profit of the Company for the year ended 31 December 2018 represented an increase of 50% or more as compared to that of the year ended 31 December 2017. The remaining 50% of these share options would be vested on 31 March 2020 if the consolidated audited net profit of the Company for the year ending 31 December 2019 represented an increase of 50% or more as compared to that of the year ended 31 December 2018. All these options have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period commencing from the relevant vesting date and ending on 31 December of the same year as the vesting date. The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each.

Among these 60,000,000 share options, 30,000,000 share options were vested on 31 March 2019. All share options for 30,000,000 shares were exercised between 29 August 2019 to 27 December 2019.

As there was an increase in audited consolidated net profit of 52.7% for the year ended 31 December 2019 as compared to that of 2018, options in relation to the remaining 30,000,000 shares were vested on 31 March 2020.

	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	–
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	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.98
	800,000	–	–	–	800,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
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	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.98
	500,000	–	–	–	500,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
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	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.98
	300,000	–	–	–	300,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
Mr. Gao Xiang	150,000	–	150,000	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.41
	150,000	–	–	–	150,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
Mr. Lee Cheuk Yin, Dannis	150,000	–	150,000	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.93
	150,000	–	–	–	150,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
Mr. Wang Xuesong	150,000	–	150,000	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.98
	150,000	–	–	–	150,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
Employees	20,180,000	–	–	20,180,000	–	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	27,950,000	–	27,950,000	–	–	11 January 2018	01 April 2019 to 31 December 2019	HKD1.50	HKD1.29	2.98
	27,950,000	–	–	–	27,950,000	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	–
	82,147,000	–	30,000,000	22,147,000	30,000,000					

The options granted to the Directors are personal to the Directors and registered under the names of the respective Directors as 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(n)(ii) and note 30 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 "Connected Transactions/Continuing Connected Transactions" below and "Material related party transactions" in note 35 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 2019, 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 2019, 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 2019, 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 2019, except for the following deviation:

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors ("INEDs") and other non-executive directors should also attend general meetings. Two of the INEDs, Mr. Gao Xiang and Mr. Lee Cheuk Yin, Dannis were unable to attend the annual general meeting of the Company held on 24 May 2019 due to other business engagement.

Audit Committee

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 19 March 2020 to consider and review the 2019 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 2019 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 2019 is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer/supplier	23%	10%
Five largest customers/suppliers in aggregate	36%	30%

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.

Connected Transactions/Continuing Connected Transactions

Connected transactions/continuing connected transactions relating to daily operation:

Description of the event	Enquiry index
On 15 December 2016, TG Tech, an indirectly owned subsidiary of the Company and Nanjing Iron & Steel Co., Ltd. ("NISCO") entered into the Framework Subcontracting Agreement, pursuant to which NISCO agreed to provide subcontracting service on titanium flat plate to TG Tech. The total amount incurred in 2019 for the subcontracting services was RMB514,281.	NISCO owned 17.95% of equity interest in TG Tech and was defined as connected person at the subsidiary level. The transaction was qualified as de minimis transaction since the transaction amount was less than 1% of all percentage ratios (other than the profit ratio) and the transaction was a connected transaction only because it involved connected person at the subsidiary level.
On 15 January 2019, 江蘇天工集團有限公司 (Jiangsu Tiangong Group Company Limited#)("TG Group"), as vendor, and 江蘇天工工具有限公司 (Jiangsu Tiangong Tools Co.,Ltd.#) ("TG Tools") (an indirect wholly-owned subsidiary of the Company), as purchaser, entered into an acquisition agreement, pursuant to which the TG Tools would acquire the the two industrial complex Buildings situated at Binjiang Avenue North, Houxiang Town, Danyang City, Jiangsu Province, the PRC, with an aggregate gross floor area of 22,561.14 sq.m. and the related Land with a gross site area of 55,946.9 sq.m. from TG Group for a consideration of RMB100 million.	For details, please refer to the announcement on the connected transaction published by the Company on 15 January 2019 on the websites of the Stock Exchange at www.hkexnews.hk.
On 29 April 2019, TG Tech, an indirectly owned subsidiary of the Company and 江蘇偉建工具科技有限公司 (Jiangsu Weijian Tools Technology Co., Ltd.#) ("Weijian Tools") entered into the Framework Titanium Coil Supply Agreement, pursuant to which TG Tech agreed to supply and Weijian Tools agreed to purchase titanium coil in 2019. The total amount of goods supplied under the aforementioned agreement was expected not to exceed RMB16 million.	For details, please refer to the announcement on the continuing connected transactions published by the Company on 29 April 2019 on the websites of the Stock Exchange at www.hkexnews.hk.
On 29 April 2019, TG Tools, an indirect wholly-owned subsidiary of the Company and Weijian Tools entered into the Framework HSS Coil Supply Agreement pursuant to which TG Tools agreed to supply and Weijian Tools agreed to purchase HSS coil in 2019. The total amount of goods supplied under the aforementioned agreement was expected not to exceed RMB50 million.	For details, please refer to the announcement on the continuing connected transactions published by the Company on 29 April 2019 on the websites of the Stock Exchange at www.hkexnews.hk.

Description of the event	Enquiry index
On 4 December 2019, TG Tech and Weijian Tools entered into the Tenancy Agreement in respect of the lease of the Premises for a term commencing from 4 December 2019 to 30 November 2020. Parties: TG Tech as tenant Weijian Tools as landlord Premises: Part of the factory located at No. 88-8, extension section of Huayang West Road in Jurong Economic Development District (句容市經濟開發區華陽西路延伸段88-8號) Gross Floor Area: Approximately 5,093.65 square meter Term: 4 December 2019 to 30 November 2020 Rent: RMB56,030.15 per month (exclusive of value-added-tax and utility charges such as water, electricity, gas and telecommunication charges) payable within 10 days after the value-added-tax invoice issued by Weijian Tools on each month Use of Premises: For industrial purpose	For details, please refer to the announcement on the continuing connected transactions published by the Company on 4 December 2019 on the websites of the Stock Exchange at www.hkexnews.hk.
On 4 December 2019, TG Tech (a subsidiary of the Company), as purchaser, entered into an assets transfer agreement, pursuant to which TG Tech would acquire certain fixed assets and inventories in relation to the production of titanium wire from Weijian Tools for a consideration of RMB21,529,730.20.	For details, please refer to the announcement on the connected transaction published by the Company on 4 December 2019 on the websites of the Stock Exchange at www.hkexnews.hk.

for identification purpose only, English name is not the official name of the entity

Notes:

(1) In respect of the above connected transactions, Weijian Tools is a company owned as to 75% by Mr. Zhu Zefeng, a substantial shareholder of the Company. Mr. Zhu Zefeng is a substantial shareholder holding approximately 22.84% of the issued share capital of the Company and the chief investment officer of the Company. The remaining 25% interest of Weijian Tools is directly held by Dangyang City Qianjia Investment Partnership* (丹陽市乾嘉投資合夥企業), a partnership established in the PRC and is owned as to 55.6% by Mr. Wu Weizhong (吳偉中) and 44.4% Mr. Wu Jianxing (吳建興) as of the date of this report. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Wu Weizhong and Mr. Wu Jianxin are the ultimate beneficial owners of the remaining 25% interest of Weijian Tools and are third parties independent of the Company and the connected persons of the Company.

(2) Mr. Zhu Xiaokun and his spouse own the entire equity interest of TG Group. As such TG Group is an associate of Mr. Zhu, the chairman, an executive Director and a substantial shareholder of the Company.

(3) NISCO owns 17.95% equity interest of TG Tech. As such, NISCO is a substantial shareholder of TG Tech and a connected person at the subsidiary level to the Company.

Save for the above, the continuing connected transactions of the Group on leases from controlling shareholders disclosed in note 35 to the financial statements 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.

Further, the Company has notified KPMG of the information relating to the continuing connected transactions to be disclosed in the 2019 annual report of the Company. KPMG has reviewed the information relating to such connected transactions and has issued a letter to the board of directors to confirm that such connected transactions:

(1) have been approved by the board of directors of the Company;

(2) were conducted in all material aspects in accordance with the Group's pricing policy (if such transactions involved the provision of goods or services by the Group);

(3) were conducted in all material aspects in accordance with the terms of relevant agreements governing such transactions; and

(4) have not exceeded the caps as disclosed in the previous announcements.

Pledge of Assets

As at 31 December 2019, the Group pledged certain bank deposits amounting to approximately RMB610,400,000 (31 December 2018: RMB464,500,000) and certain trade receivables amounting to approximately RMB107,037,000 (31 December 2018: RMB151,780,000).

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 186. 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.

Tax Relief and Exemption

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities. If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to the Company's shares, they are advised to consult an expert.

By order of the Board

Tiangong International Company Limited
Zhu Xiaokun
Chairman
Hong Kong, 20 March 2020

INDEPENDENT AUDITOR'S REPORT

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 91 to 185, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 117.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of die steel, high speed steel, cutting tools and titanium alloy products to distributors and manufacturers and the trading of general carbon steel. Contracts for different products with different types of customers have a variety of different terms. 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. Revenue from domestic and overseas direct sales is recognised when the control of the goods have been transferred to customers, which is generally when the goods leave the Group's warehouses, when the goods are delivered at the customers' premises and when the goods are loaded on board, respectively in accordance with the terms of the sales contracts. Revenue under consignment arrangements is generally recognised when the goods are sold to end customers.	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 performance obligations and terms and conditions relating to transfer of control of the goods and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing revenue transactions recorded during the current year, on a sample basis, with invoices, sales contracts and other underlying documents to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies; • 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, goods acceptance notes, consignment statements and customs declaration forms, to assess whether revenue has been recognised in accordance with the terms of the sales contracts and in the correct financial year;

Revenue recognition (continued)

Refer to Note 5 to the consolidated financial statements and the accounting policies on page 117.

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	• inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and the closing period and which were considered to be material or met specific risk-based criteria; • confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2019 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 year; 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 year.

Loss allowance for trade receivables

Refer to Note 23 to the consolidated financial statements and the accounting policies on pages 107 to 110.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2019, the Group's gross trade receivables totalled RMB1,305 million, against which loss allowance of RMB94 million was recorded. Management measured loss allowance at an amount equal to lifetime expected credit losses, based on ageing of the receivables and loss rate, for receivables that existed during the reporting periods in which IFRS 9 "Financial Instruments" was applicable. According to the past experience of the Group, the loss patterns for overseas and domestic customers are significantly different. Therefore, when calculating the loss allowance based on ageing information, the receivables are segmented into overseas and domestic customer bases. We identified loss allowance for trade receivables as a key audit matter because trade receivables and loss allowance are material to the Group and because the recognition of expected credit losses is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for 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, segmentation of trade receivables, estimate of expected credit losses and making related allowances; • obtaining an understanding of the key data and assumptions of the expected credit loss model adopted by management, including the basis of the segmentation of the trade receivables based on credit risk characteristics, the historical default data, and the assumptions involved in management's estimated loss rate; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the underlying goods delivery notes, sales invoices and other relevant underlying documentation; and • comparing, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade receivable balances at 31 December 2019 with bank-in slips and other relevant underlying documentation.

Valuation of inventories

Refer to Note 22 to the consolidated financial statements and the accounting policies on page 112.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2019, the Group's gross inventories totalled RMB1,757 million, against which provisions for inventories of RMB22 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 products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sales. 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 IFRSs 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.

KPMG
Certified Public Accountants

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

20 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019 (Expressed in Renminbi ("RMB"))

	Note	**2019** **RMB'000**	2018 RMB'000 (Restated) (Note)
Revenue	5	**5,369,873**	5,021,546
Cost of sales		**(4,350,214)**	(4,157,004)
Gross profit		**1,019,659**	864,542
Other income	6	**55,895**	42,467
Distribution expenses		**(97,554)**	(105,000)
Administrative expenses		**(129,363)**	(132,551)
Research and development expenses		**(259,078)**	(226,539)
Other expenses	7	**(1,990)**	(40,755)
Profit from operations		**587,569**	402,164
Finance income		**26,450**	7,233
Finance expenses		**(156,636)**	(142,071)
Net finance costs	8(a)	**(130,186)**	(134,838)
Share of (losses)/profits of associates	18	**(544)**	2,349
Share of (losses)/profits of joint ventures	19	**(6,468)**	10,893
Profit before taxation	8	**450,371**	280,568
Income tax	9	**(46,353)**	(13,598)
Profit for the year		**404,018**	266,970
Attributable to:			
Equity shareholders of the Company		**395,146**	258,835
Non-controlling interests		**8,872**	8,135
Profit for the year		**404,018**	266,970
Earnings per share (RMB)	13		
Basic		**0.156**	0.106
Diluted		**0.155**	0.106

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4(a).

The notes on pages 99 to 185 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 32(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 (Expressed in Renminbi ("RMB"))

	Note	**2019** **RMB'000**	2018 RMB'000 (Note)
Profit for the year		**404,018**	266,970
Other comprehensive income for the year (after tax and reclassification adjustment)	12		
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (net of tax of RMB2,466,000 (2018: RMB841,000)) (non-recycling)		**12,480**	(8,045)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
— financial statements of entities with functional currencies other than RMB (net of nil tax (2018: nil))		**1,826**	(3,562)
Other comprehensive income for the year		**14,306**	(11,607)
Total comprehensive income for the year		**418,324**	255,363
Attributable to:			
Equity shareholders of the Company		**409,452**	247,228
Non-controlling interests		**8,872**	8,135
Total comprehensive income for the year		**418,324**	255,363

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4(a).

The notes on pages 99 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 (Expressed in Renminbi ("RMB"))

	Note	**2019** **RMB'000**	2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	14	**3,866,888**	3,597,069
Lease prepayments	15	**113,353**	93,628
Goodwill	16	**21,959**	21,959
Interest in associates	18	**53,466**	51,905
Interest in joint ventures	19	**27,638**	33,813
Other financial assets	20	**141,500**	100,024
Deferred tax assets	31(b)	**37,109**	25,195
		4,261,913	3,923,593
Current assets			
Trading securities	21	**2,765**	1,482
Inventories	22	**1,734,664**	1,994,287
Trade and other receivables	23	**2,708,618**	2,351,841
Pledged deposits	24	**610,400**	464,500
Time deposits	25	**500,000**	717,414
Cash and cash equivalents	26	**398,017**	583,235
		5,954,464	6,112,759
Current liabilities			
Interest-bearing borrowings	27	**2,612,845**	2,284,602
Trade and other payables	28	**1,600,858**	1,911,451
Current taxation	31(a)	**28,122**	117
Deferred income	29	**6,509**	5,279
		4,248,334	4,201,449
Net current assets		**1,706,130**	1,911,310

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 (Expressed in Renminbi ("RMB"))

	Note	**2019 RMB'000**	2018 RMB'000 (Note)
Total assets less current liabilities		**5,968,043**	5,834,903
Non-current liabilities			
Interest-bearing borrowings	27	**638,888**	899,177
Deferred income	29	**51,369**	50,498
Deferred tax liabilities	31(c)	**74,652**	62,268
		764,909	1,011,943
Net assets		**5,203,134**	4,822,960
Capital and reserves			
Share capital	32(a)/(c)	**45,766**	45,242
Reserves	32(d)	**4,990,581**	4,626,262
Total equity attributable to equity shareholders of the Company		**5,036,347**	4,671,504
Non-controlling interests		**166,787**	151,456
Total equity		**5,203,134**	4,822,960

Approved and authorised for issue by the board of directors on 20 March 2020.

Zhu Xiao Kun	**Yan Rong Hua**
Directors	*Directors*

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4(a).

The notes on pages 99 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in Renminbi ("RMB"))

		Attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000 (Note)	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2018 and 1 January 2019		**45,242**	**1,984,102**	**492**	**80,658**	**91,925**	**(60,638)**	**-**	**45,930**	**598,798**	**1,884,995**	**151,456**	**4,822,960**
Changes in equity for the year 2019													
Profit for the year		-	-	-	-	-	-	-	-	-	395,146	8,872	404,018
Other comprehensive income	12	-	-	-	-	-	1,826	-	12,480	-	-	-	14,306
Total comprehensive income		-	-	-	-	-	1,826	-	12,480	-	395,146	8,872	418,324
Dividends approved in respect of the previous year	32(b)(ii)	-	-	-	-	-	-	-	-	-	(90,684)	-	(90,684)
Transfer to reserve	32(d)(vi)	-	-	-	-	-	-	-	-	75,799	(75,799)	-	-
Exercise of share options	32(c)(ii)	524	45,767	-	(5,805)	-	-	-	-	-	-	-	40,486
Equity settled share-based transactions	30	-	-	-	(6,143)	-	-	-	-	-	10,401	-	4,258
Capital injection by non-controlling shareholders		-	-	-	1,331	-	-	-	-	-	-	6,459	7,790
Balance at 31 December 2019		**45,766**	**2,029,869**	**492**	**70,041**	**91,925**	**(58,812)**	**-**	**58,410**	**674,597**	**2,124,059**	**166,787**	**5,203,134**

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4(a).

The notes on pages 99 to 185 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (Expressed in Renminbi ("RMB"))

		Attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000 (Note)	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2018		40,477	1,602,218	492	70,595	91,925	(57,076)	–	53,975	566,221	1,758,920	143,321	4,271,068
Changes in equity for the year 2018													
Profit for the year		–	–	–	–	–	–	–	–	–	258,835	8,135	266,970
Other comprehensive income	12	–	–	–	–	–	(3,562)	–	(8,045)	–	–	–	(11,607)
Total comprehensive income		–	–	–	–	–	(3,562)	–	(8,045)	–	258,835	8,135	255,363
Dividends approved in respect of the previous year	32(b)(ii)	–	–	–	–	–	–	–	–	–	(100,183)	–	(100,183)
Transfer to reserve	32(d)(vi)	–	–	–	–	–	–	–	–	32,577	(32,577)	–	–
Shares allotment		4,765	381,884	–	–	–	–	–	–	–	–	–	386,649
Issuance of share options	30	–	–	–	10,063	–	–	–	–	–	–	–	10,063
Balance at 31 December 2018		45,242	1,984,102	492	80,658	91,925	(60,638)	–	45,930	598,798	1,884,995	151,456	4,822,960

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4(a).

The notes on pages 99 to 185 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019 (Expressed in Renminbi ("RMB"))

	Note	2019 RMB'000	2018 RMB'000 (Note)
Operating activities			
Cash generated from operations	26(b)	**419,010**	818,390
PRC taxes paid		**(20,344)**	(7,428)
Hong Kong Profits Tax paid		**–**	(63)
Net cash generated from operating activities		**398,666**	810,899
Investing activities			
Payment for purchase of property, plant and equipment		**(510,367)**	(307,235)
Payment for purchase of other financial assets		**(20,000)**	(20,010)
Payment for lease prepayments		**(22,568)**	(24,607)
Proceeds from disposal of property, plant and equipment		**776**	6,476
Proceeds from/(payment for) time and pledged deposits, net		**71,514**	(440,534)
Interest received	8(a)	**26,450**	7,233
Dividends received from associates		**1,796**	488
Dividends received from investment in securities	6	**4,200**	1,800
Payment for trading securities		**(1,703)**	(2,429)
Payment for interest in an associate	18	**(1,537)**	–
Net cash used in investing activities		**(451,439)**	(778,818)

The notes on pages 99 to 185 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019 (Expressed in Renminbi ("RMB"))

	Note	2019 RMB'000	2018 RMB'000 (Note)
Financing activities			
Proceeds from interest-bearing borrowings	26(c)	**3,274,060**	4,937,670
Repayment of interest-bearing borrowings	26(c)	**(3,206,106)**	(4,747,183)
Interest paid		**(156,931)**	(142,193)
Dividends paid to equity shareholders of the Company	32(b)(ii)	**(90,684)**	(100,183)
Proceeds from exercise of share options	32(c)(ii)	**40,486**	–
Proceeds from shares allotment		**–**	386,649
Capital injection by non-controlling shareholders		**7,790**	–
Net cash (used in)/generated from financing activities		**(131,385)**	334,760
Net (decrease)/increase in cash and cash equivalents		**(184,158)**	366,841
Cash and cash equivalents at 1 January		**583,235**	219,798
Effect of foreign exchange rate changes		**(1,060)**	(3,404)
Cash and cash equivalents at 31 December	26(a)	**398,017**	583,235

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 4(a).

The notes on pages 99 to 185 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(a) 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 2019 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.

2 Basis of preparation (continued)

(c) Accounting estimates and judgements (continued)

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 37.

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.

3 Significant accounting policies (continued)

(a) Subsidiaries and non-controlling interests (continued)

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(l) 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).

(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.

3 Significant accounting policies (continued)

(b) Associates and joint ventures (continued)

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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. 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 any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable (see Note 3(g)(i)).

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 policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 33(f). These investments are subsequently accounted for as follows, depending on their classification.

3 Significant accounting policies (continued)

(d) Other investments in equity securities (continued)

(i) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 3(q)(ii).

(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 (see Note 3(s)).

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	20–40 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.

3 Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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 People's Republic of China (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

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

3 Significant accounting policies (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 3(e) and 3(g)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents interests in leasehold land in 'lease prepayments' in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease; and

— land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3 Significant accounting policies (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to 1 January 2019 (continued)

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 3(e). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 3(g). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents and trade receivables and other receivables) and debt instruments measured at FVOCI (recycling).

Other financial assets measured at fair value, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

3 Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

3 Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is twelve months past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

3 Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Basis of calculation of interest income

Interest income recognised in)accordance with Note 3(q)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

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

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

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

3 Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current 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;

— lease prepayments (right-of-use assets);

— goodwill;

— interest in joint ventures and associates; and

— interest in subsidiaries 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 to sell 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 to sell, or value in use (if determinable).

3 Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

- *Reversals of impairment losses*

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

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

(h) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

3 Significant accounting policies (continued)

(i) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 3(q)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 3(g)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 3(j)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 3(q)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 3(j)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 3(q)).

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 3(i)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 3(g)(i)). Receivables that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income.

(k) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 3(s)).

(l) 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.

3 Significant accounting policies (continued)

(m) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 3(g)(i).

(n) 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 included in the amount recognised in share capital and share premium for the shares issued) or the option expires (when it is released directly to retained profits).

3 Significant accounting policies (continued)

(o) 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.

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 is 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.

3 Significant accounting policies (continued)

(o) Income tax (continued)

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 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 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.

(p) Provisions and contingent liabilities

Provisions are recognised when the Group 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.

3 Significant accounting policies (continued)

(q) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

Revenue is recognised when the goods are shipped from the Group's warehouses, delivered at the customers' premises, or loaded on board. If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

(ii) Dividends

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

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 3(g)(i)).

(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)

(r) 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. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. 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.

(s) Borrowing costs

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

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

3 Significant accounting policies (continued)

(t) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

3 Significant accounting policies (continued)

(u) 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 and presentation and disclosures

(a) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases — incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged. IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17. The adoption of IFRS 16 does not have a significant impact to the Group's results and financial position because the Group does not have material lease contracts.

4 Changes in accounting policies and presentation and disclosures (continued)

(b) Changes in presentation and disclosures

The Ministry of Finance of the PRC issued Notice on Revision of the 2018 Illustrative Financial Statements (Caikuai [2018] No.15) and related interpretation in 2018. The PRC subsidiaries of the Group, which compose the majority of operating entities within the Group, have applied this revised regulation and interpretation since 1 January 2018 in their separate financial statements. Caikuai [2018] No.15 requires the presentation of research and development expenses as a separate line item in the statement of profit or loss. In order to provide a more comparable and consistent presentation with other companies in the industry that the Group operates, the Group has adjusted the related presentation in the consolidated financial statements accordingly. The board of directors consider that the revised presentation is more appropriate and relevant to the economic decision making needs of users of the financial statements. The Group has applied such presentation and disclosures retrospectively by restating the comparative figures in the consolidated statement of profit or loss.

Affected items in the consolidated statement of profit or loss for the year ended 31 December 2018:

	For the year ended 31 December 2018		
	Before adjustment RMB'000	Adjustment RMB'000	After adjustment RMB'000
Cost of sales	4,360,619	(203,615)	4,157,004
Administrative expenses	155,475	(22,924)	132,551
Research and development expenses	–	226,539	226,539
Total		–	

5 Revenue and segment reporting

(a) Revenue

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. Further details regarding the Group's revenue are disclosed in Note 5(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by products divisions is as follows:

	2019	2018
	RMB'000	RMB'000
DS	**2,215,337**	2,098,110
HSS	**791,116**	782,015
Cutting tools	**657,094**	581,232
Titanium alloy	**321,709**	245,155
Trading of goods	**1,384,617**	1,315,034
	5,369,873	5,021,546

The Group's revenue from contracts with customers was recognised at point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 5(b)(iii).

The Group's customer base is diversified and includes only one customer (2018: one customer) with whom transactions have exceeded 10% of the Group's revenue. In 2019 revenue from trading of goods to this customer amounted to RMB1,252,362,000 (2018: RMB1,272,964,000) and arose in the PRC in which trading of goods segment is active. Details of concentrations of credit risk arising from this customer are set out in Note 33(a).

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts for products such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of products that had an original expected duration of one year or less.

5 Revenue and segment reporting (continued)

(b) Segment reporting

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.

(i) 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.

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Year ended and as at 31 December 2019					
	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	**2,215,337**	**791,116**	**657,094**	**321,709**	**1,384,617**	**5,369,873**
Inter-segment revenue	**–**	**298,218**	**–**	**–**	**–**	**298,218**
Reportable segment revenue	**2,215,337**	**1,089,334**	**657,094**	**321,709**	**1,384,617**	**5,668,091**
Reportable segment profit (adjusted EBIT)	**335,737**	**190,807**	**94,338**	**41,554**	**591**	**663,027**
Reportable segment assets	**4,395,412**	**2,109,329**	**1,288,469**	**587,360**	**8**	**8,380,578**
Reportable segment liabilities	**1,064,492**	**299,393**	**179,385**	**92,578**	**–**	**1,635,848**

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

	Year ended and as at 31 December 2018					
	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	2,098,110	782,015	581,232	245,155	1,315,034	5,021,546
Inter-segment revenue	–	242,524	–	–	–	242,524
Reportable segment revenue	2,098,110	1,024,539	581,232	245,155	1,315,034	5,264,070
Reportable segment profit (adjusted EBIT) (restated)	272,394	138,095	60,423	35,743	327	506,982
Reportable segment assets	3,895,601	2,182,621	1,369,391	562,837	31	8,010,481
Reportable segment liabilities	1,343,658	363,104	179,345	56,315	–	1,942,422

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

Revenue	**2019** **RMB'000**	2018 RMB'000
Reportable segment revenue	**5,668,091**	5,264,070
Elimination of inter-segment revenue	**(298,218)**	(242,524)
Consolidated revenue (Note 5(a))	**5,369,873**	5,021,546

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

Profit	2019 RMB'000	2018 RMB'000 (Restated)
Reportable segment profit	**663,027**	506,982
Net finance costs	**(130,186)**	(134,838)
Share of (losses)/profits of associates	**(544)**	2,349
Share of (losses)/profits of joint ventures	**(6,468)**	10,893
Unallocated head office and corporate expenses	**(75,458)**	(104,818)
Consolidated profit before taxation	**450,371**	280,568

Assets	2019 RMB'000	2018 RMB'000
Reportable segment assets	**8,380,578**	8,010,481
Interest in associates	**53,466**	51,905
Interest in joint ventures	**27,638**	33,813
Other financial assets	**141,500**	100,024
Deferred tax assets	**37,109**	25,195
Trading securities	**2,765**	1,482
Pledged deposits	**610,400**	464,500
Time deposits	**500,000**	717,414
Cash and cash equivalents	**398,017**	583,235
Unallocated head office and corporate assets	**64,904**	48,303
Consolidated total assets	**10,216,377**	10,036,352

Liabilities	2019 RMB'000	2018 RMB'000
Reportable segment liabilities	**1,635,848**	1,942,422
Interest-bearing borrowings	**3,251,733**	3,183,779
Current taxation	**28,122**	117
Deferred tax liabilities	**74,652**	62,268
Unallocated head office and corporate liabilities	**22,888**	24,806
Consolidated total liabilities	**5,013,243**	5,213,392

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(iii) Geographical information

The Group's business is managed on a worldwide basis, but participates in four principal economic geographies, 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.

Revenue	**2019** **RMB'000**	2018 RMB'000
The PRC	**3,526,131**	3,249,457
North America	**587,652**	548,031
Europe	**899,628**	882,839
Asia (other than the PRC)	**319,424**	299,530
Others	**37,038**	41,689
Total	**5,369,873**	5,021,546

6 Other income

	Note	2019 RMB'000	2018 RMB'000
Government grants	(i)	**29,577**	33,270
Sales of scrap materials		**2,063**	3,239
Reversal of loss allowance for trade receivables	33(a)	**11,973**	–
Net foreign exchange gains		**923**	–
Dividend income from listed securities	(ii)	**4,200**	1,800
Unrealised fair value changes of financial asset measured at fair value through profit or loss		**6,530**	–
Net gain on disposal of property, plant and equipment		**–**	1,639
Others		**629**	2,519
		55,895	42,467

Notes:

(i) The subsidiaries of the Group, including Jiangsu Tiangong Tools Company Limited ("TG Tools") and Jiangsu Tiangong Technology Company Limited ("TG Tech"), located in the PRC, collectively received unconditional grants amounting to RMB24,298,000 (2018: RMB27,771,000) 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 RMB5,279,000 (2018: RMB5,499,000) during the year ended 31 December 2019 (see Note 29).

(ii) The Group received dividends totalling RMB4,200,000 (2018: RMB1,800,000) from a listed equity investment (see Note 20).

7 Other expenses

	Note	2019 RMB'000	2018 RMB'000
Provision of loss allowance for trade receivables	33(a)	**–**	35,374
Net loss on disposal of property, plant and equipment		**217**	–
Net foreign exchange losses		**–**	2,471
Charitable donations		**676**	1,317
Net realised and unrealised losses on trading securities		**420**	947
Others		**677**	646
		1,990	40,755

8 Profit before taxation

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

(a) Net finance costs

	2019 **RMB'000**	2018 RMB'000
Interest income	**(26,450)**	(7,233)
Finance income	**(26,450)**	(7,233)
Interest on bank loans	**181,904**	171,386
Less: interest expense capitalised into property, plant and equipment under construction*	**(25,268)**	(29,315)
Finance expenses	**156,636**	142,071
Net finance costs	**130,186**	134,838

* The borrowing costs have been capitalised at a rate of 5.00% per annum (2018: 5.11%).

(b) Staff costs

	2019 **RMB'000**	2018 RMB'000
Salaries, wages and other benefits	**239,735**	224,866
Contributions to defined contribution retirement plans	**36,101**	33,862
Equity-settled share-based payment expenses (Note 30)	**4,258**	10,063
	280,094	268,791

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	2019 RMB'000	2018 RMB'000 (Restated)
Cost of inventories*		**4,350,214**	4,157,004
Depreciation of property, plant and equipment	14	**239,555**	225,673
Depreciation of lease prepayments (right-of-use assets)#	15	**2,843**	1,854
(Reversal)/provision of loss allowance for trade receivables	33(a)	**(11,973)**	35,374
Provision of write-down of inventories	22	**6,747**	1,002
Total minimum lease payments for leases previously classified as operating leases under IAS 17#		**–**	1,059
Auditor's remuneration			
— audit services		**2,650**	2,650

* Cost of inventories includes RMB369,374,000 (2018: RMB331,580,000) 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.

\# The Group has initially applied IFRS 16 using the modified retrospective approach. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 4(a).

9 Income tax in the consolidated statement of profit or loss

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

	2019 RMB'000	2018 RMB'000
Current tax		
Provision for PRC taxes (Note 31(a))	**46,489**	3,199
Provision for Hong Kong Profits Tax (Note 31(a))	**1,860**	245
	48,349	3,444
Deferred tax		
Origination and reversal of temporary differences	**(1,996)**	10,154
	46,353	13,598

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

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

(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 2019 available to enterprises which qualify as a High and New Technology Enterprise (2018: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2018: 25%).

The income tax law of the PRC and its relevant regulations also impose 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% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2019.

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

	2019 **RMB'000**	2018 RMB'000
Profit before taxation	**450,371**	280,568
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2018: 25%)	**112,593**	70,142
Effect of preferential tax rates	**(44,004)**	(16,601)
Effect of different tax rates	**1,302**	(1,872)
Tax effect of unused tax losses not recognised	**3,139**	–
Tax effect of non-deductible expenses	**1,993**	1,075
Tax effect of non-taxable income	**(865)**	(3,586)
Provision/(refund) of withholding tax on dividends	**4,000**	(22,222)
Tax effect of bonus deduction for research and development expenses	**(24,849)**	(13,670)
(Over)/under-provision in respect of prior year	**(6,956)**	332
Actual tax expense	**46,353**	13,598

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 2019

	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 RMB'000 (Note)	Total RMB'000
Executive directors						
Zhu Xiaokun	–	203	16	396	–	615
Wu Suojun	–	236	16	377	114	743
Yan Ronghua	–	187	16	129	71	403
Jiang Guangqing	–	151	16	105	43	315
Independent non-executive directors						
Wang Xuesong	86	–	–	–	21	107
Gao Xiang	36	–	–	–	21	57
Lee Cheuk Yin, Dannis	86	–	–	–	21	107
Total	208	777	64	1,007	291	2,347

10 Directors' emoluments (continued)

Year ended 31 December 2018

	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 RMB'000 (Note)	Total RMB'000
Executive directors						
Zhu Xiaokun	–	277	15	–	–	292
Wu Suojun	–	162	15	360	268	805
Yan Ronghua	–	159	15	120	168	462
Jiang Guangqing	–	112	15	90	101	318
Independent non-executive directors						
Wang Xuesong	81	–	–	–	50	131
Gao Xiang	36	–	–	–	50	86
Lee Cheuk Yin, Dannis	81	–	–	–	50	131
Total	198	710	60	570	687	2,225

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(n)(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 30.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2018: one) is a director whose emoluments are disclosed in Note 10. The aggregate of the emoluments in respect of the other four (2018: four) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**2,230**	1,854
Share-based payments	**256**	604
Bonuses	**1,178**	502
Contributions to retirement benefit schemes	**47**	45
	3,711	3,005

The emoluments of the four (2018: four) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
HKD nil to HKD1,000,000	**2**	3
HKD1,000,001 to HKD2,000,000	**2**	1

12 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	Equity investments at FVOCI — net movement in fair value reserves (non-recycling) RMB'000	Exchange differences on translation of financial statements RMB'000	Total RMB'000
For the year ended 31 December 2019			
Before-tax amount	**14,946**	**1,826**	**16,772**
Tax expense	**(2,466)**	**–**	**(2,466)**
Net-of-tax amount	**12,480**	**1,826**	**14,306**
For the year ended 31 December 2018			
Before-tax amount	(8,886)	(3,562)	(12,448)
Tax benefit	841	–	841
Net-of-tax amount	(8,045)	(3,562)	(11,607)

(Expressed in Renminbi ("RMB") unless otherwise indicated)

13 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 RMB395,146,000 (2018: RMB258,835,000) and the weighted average of 2,539,417,170 ordinary shares (2018: 2,431,907,143 ordinary shares) in issue during the year:

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	**2,539,050,000**	2,239,050,000
Effect of shares allotment	**–**	192,857,143
Effect of exercise of share options (Note 30)	**367,170**	–
Weighted average number of ordinary shares at 31 December	**2,539,417,170**	2,431,907,143

(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 RMB395,146,000 (2018: RMB258,835,000) and the weighted average number of ordinary shares of 2,549,626,341 shares (2018: 2,435,421,765 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
Weighted average number of ordinary shares at 31 December	**2,539,417,170**	2,431,907,143
Effect of equity settled share-based transactions (Note 30)	**10,209,171**	3,514,622
Weighted average number of ordinary shares (diluted) at 31 December	**2,549,626,341**	2,435,421,765

14 Property, plant and equipment

	Plant and buildings	Machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
Balance at 1 January 2018	969,556	3,259,481	10,760	48,188	566,021	4,854,006
Additions	74,192	87,891	–	4,068	141,084	307,235
Transfers from construction in process	189,147	49,295	–	–	(238,442)	–
Disposals	(245)	(26,239)	(923)	(148)	–	(27,555)
Balance at 31 December 2018	1,232,650	3,370,428	9,837	52,108	468,663	5,133,686
Additions	99,105	27,407	1,499	8,094	374,262	510,367
Transfers from construction in process	28,693	458,766	–	1,067	(488,526)	–
Disposals	–	(1,994)	–	–	–	(1,994)
Balance at 31 December 2019	1,360,448	3,854,607	11,336	61,269	354,399	5,642,059
Accumulated depreciation:						
Balance at 1 January 2018	(285,032)	(1,005,832)	(3,717)	(39,081)	–	(1,333,662)
Charge for the year	(40,476)	(180,727)	(1,217)	(3,253)	–	(225,673)
Written back on disposals	136	21,628	825	129	–	22,718
Balance at 31 December 2018	(325,372)	(1,164,931)	(4,109)	(42,205)	–	(1,536,617)
Charge for the year	(44,771)	(190,469)	(1,262)	(3,053)	–	(239,555)
Written back on disposals	–	1,001	–	–	–	1,001
Balance at 31 December 2019	(370,143)	(1,354,399)	(5,371)	(45,258)	–	(1,775,171)
Net book value:						
At 31 December 2019	990,305	2,500,208	5,965	16,011	354,399	3,866,888
At 31 December 2018	907,278	2,205,497	5,728	9,903	468,663	3,597,069

All plant and buildings are located in the PRC.

15 Lease prepayments

	RMB'000
Cost:	
At 1 January 2018	89,647
Additions	24,607
At 31 December 2018	114,254
Additions	22,568
At 31 December 2019	136,822
Accumulated depreciation:	
At 1 January 2018	(18,772)
Charge for the year	(1,854)
At 31 December 2018	(20,626)
Charge for the year	(2,843)
At 31 December 2019	(23,469)
Net book value:	
At 31 December 2019	113,353
At 31 December 2018	93,628

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

15 Lease prepayments (continued)

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Lease prepayments, carried at depreciated cost in the PRC, with remaining lease term of between 10 and 50 years	**113,353**	93,628

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000 (Note)
Depreciation charge of right-of-use assets by class of underlying asset:		
Lease prepayments	**2,843**	1,854
Expense relating to leases of short-term leases and low-value assets	**502**	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17	**–**	1,059

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. The depreciated carrying amount of lease prepayments is identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognizing expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 4(a).

During the year ended 31 December 2019, additions to right-of-use assets were RMB22,568,000. This amount represented the purchase of a leasehold land at a cost of RMB22,568,000 located in the PRC.

Details of total cash outflows for leases are set out in Note 26(d).

16 Goodwill

	2019 RMB'000	2018 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:

	2019 RMB'000	2018 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%–10% (2018: 5%–10%), a pre-tax discount rate of 9.0% (2018: 10.1%) and a gross margin of 15%–20% (2018: 15%–20%). 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 pre-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 ("RMB") unless otherwise indicated)

17 Interests in subsidiaries

The following information 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	Place and date of incorporation	Proportion of ownership interest Direct	Proportion of ownership interest 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	The PRC, 7 July 1997	–	100%	RMB2,148,128,000/ RMB2,148,128,000	Manufacture and sale of high speed steel and cutting tools
TG Aihe	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")	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	The PRC, 27 January 2010	–	74.03%	RMB586,600,015/ RMB586,600,015	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")	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")	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")	The PRC, 29 July 2015	–	100%	RMB300,000,000/ RMB300,000,000	Research and development, manufacture and sale of high speed steel, and die steel related products

(Expressed in Renminbi ("RMB") unless otherwise indicated)

17 Interests in subsidiaries (continued)

Name of company	Place and date of incorporation	Proportion of ownership interest Direct	Proportion of ownership interest Indirect	Issued and fully paid-up/ registered capital	Principal activity
Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools")	The PRC, 25 January 2016	–	100%	HKD–/ HKD15,000,000	Research and development, manufactory and sale of cutting tools related products
Danyang Taifeng Precision Machinery Tools Company Limited ("Taifeng Precision")	The PRC, 5 February 2016	–	63.69%	RMB20,820,000/ RMB26,000,000	Research and development, manufacture, distribution and sale of cutting tools related products
Jiangsu Tiangong Investment Management Company Limited ("TG Investment")	The PRC, 9 March 2017	–	100%	HKD15,000,000/ HKD35,000,000	Investment management and advisory related services
Tiangong Precision Tools Company Limited ("Precision BVI")	British Virgin Islands, 12 January 2018	100%	–	–/ USD50,000	Investment holding
Tiangong Precision Tools (Hong Kong) Company Limited ("Precision HK")	Hong Kong, 7 February 2018	–	100%	–/ HKD1	Investment holding and trading of cutting tools
Tiangong Special Steel Company Limited ("TGS Thailand")	Thailand, 16 August 2019	–	99%	THB100,000,000/ THB100,000,000	Trading of special steel
Changzhou Junrui Tools Company Limited	The PRC, 24 October 2019	–	100%	–/ RMB1,500,000	Sale of cutting tools related products
Tiangong Precision Tools (Thailand) Company Limited ("Precision Thailand")	Thailand, 25 October 2019	–	100%	–/ THB270,000,000	Production and sale of cutting tools and related products

17 Interests in subsidiaries (continued)

The following table sets out information relating to TG Tech, the 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.

	2019	2018
	RMB'000	RMB'000
NCI percentage	**25.97%**	25.97%
Current assets	**605,507**	468,461
Non-current assets	**130,870**	174,979
Current liabilities	**(79,365)**	(36,464)
Non-current liabilities	**(20,498)**	(23,777)
Net assets	**636,514**	583,199
Carrying amount of NCI	**160,980**	151,457
Revenue	**388,565**	272,893
Profit for the year	**53,315**	31,324
Total comprehensive income	**53,315**	31,324
Profit allocated to NCI	**9,524**	8,135
Dividend paid to NCI	**–**	–
Cash flows from operating activities	**8,350**	31,774
Cash flows from investing activities	**(21,820)**	(7,144)
Cash flows from financing activities	**–**	–

(Expressed in Renminbi ("RMB") unless otherwise indicated)

18 Interest in associates

The following sets out information on 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			Principal activity
					Group's effective interest	Held by the Company	Held by a subsidiary	
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	15%	15%	–	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	–/ MXN100,000	15%	–	15%	Sale of special steel related products

Notes:

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

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

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

(iv) TGC is the sole distributor of the Group's products in Canada. During 2019, the Company acquired an additional 5% of shareholding from the controlling shareholder of TGC at a consideration of RMB1,537,000.

(v) JS NXTG, a distributor of special steel products in the PRC, enables the Group to increase its exposure to the East of China.

(vi) 51 Mocai, a distributor of special steel products in the PRC, enables the Group to increase its exposure to the South of China. 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) On 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 2019, 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.

18 Interest in associates (continued)

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

Aggregate information of associates that are not individually material:

	2019 **RMB'000**	2018 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**53,466**	51,905

	2019 **RMB'000**	2018 RMB'000
Aggregate amounts of the Group's share of those associates'		
— (Loss)/profit from continuing operations	**(544)**	2,349
— Other comprehensive income	**2,364**	1,081
Total comprehensive income	**1,820**	3,430

(Expressed in Renminbi ("RMB") unless otherwise indicated)

19 Interest in joint ventures

Details of the Group's interest in joint ventures as at 31 December 2019, 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			Principal activity
					Group's effective interest	Held by the Company	Held by a subsidiary	
TG Korea Company Limited (Formerly known as "TGT Special Steel Company Limited") ("TG Korea")	(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
TG Czech S.R.O. (Formerly known as "Czechtools and Materials S.R.O.") ("CTM")	(iii)	Incorporated	Czech Republic	26,140,000 shares of CZK1 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 EUR1 each	60%	–	60%	Sale of special steel related products
TG Middle East Celik San Ltd. ("TGME")	(v)	Incorporated	Turkey	1,000,000 shares of EUR1 each	50%	–	50%	Sale of special steel related products

Notes:

(i) TG Korea 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 TG Korea's and FSS's joint venture agreements, 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 TG Korea and FSS, management of the Group consider that the Group does not have the ability to use its power over TG Korea and FSS to affect its returns through its involvement and deem them to be joint ventures of the Group rather than subsidiaries.

19 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2019 RMB'000	2018 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**27,638**	33,813

	2019 RMB'000	2018 RMB'000
Aggregate amount of the Group's share of those joint ventures'		
— (Loss)/profit from continuing operations	**(6,468)**	10,893
— Other comprehensive income	**293**	(1,260)
Total comprehensive income	**(6,175)**	9,633

20 Other financial assets

	Note	2019 RMB'000	2018 RMB'000
Equity securities designated at FVOCI (non-recycling)			
— Listed in the PRC	(i)	**107,520**	80,959
— Unlisted equity securities	(ii)	**7,450**	19,065
Financial asset measured at fair value through profit or loss (FVPL)			
— Unlisted units in investment fund		**26,530**	–
		141,500	100,024

20 Other financial assets (continued)

Notes:

(i) The listed equity securities are shares in Bank of Jiangsu Co., Ltd., a company listed on the Mainboard of the Shanghai Stock Exchange ("SESH") and shares in JM Digital Steel Inc., a company listed on the National Equities Exchange and Quotations System ("NEEQ"). The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of RMB4,200,000 were received from these investments during the year ended 31 December 2019 (2018: RMB1,800,000).

(ii) The unlisted equity security is shares in Xiamen Chuangfeng Yizhi Investment Management Partnership, a company incorporated in the PRC and shares in Nanjing Xiaomuma Technology Co., Ltd., a company incorporated in the PRC. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received from these investments during the year ended 31 December 2019 (2018: nil).

21 Trading securities

	2019 **RMB'000**	2018 RMB'000
Listed equity securities at FVPL (Note 33(f)(i))		
— in the PRC and Hong Kong	**2,765**	1,482

22 Inventories

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

	2019 **RMB'000**	2018 RMB'000
Raw materials	**53,749**	76,244
Work in progress	**798,869**	863,034
Finished goods	**882,046**	1,055,009
	1,734,664	1,994,287

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

	2019 **RMB'000**	2018 RMB'000 (Restated)
Carrying amount of inventories sold	**4,343,467**	4,156,002
Provision of write-down of inventories	**6,747**	1,002
	4,350,214	4,157,004

23 Trade and other receivables

	2019	2018
	RMB'000	RMB'000
Trade receivables	**1,305,225**	1,193,506
Bills receivables	**948,981**	911,473
Less: loss allowance	**(93,710)**	(105,868)
Net trade and bills receivables	**2,160,496**	1,999,111
Prepayments	**408,771**	250,879
Non-trade receivables	**139,351**	101,851
Less: loss allowance	**–**	–
Net prepayments and non-trade receivables	**548,122**	352,730
	2,708,618	2,351,841

Substantially all of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

The bills receivables held by the Group are achieved by both collecting contractual cash flows and selling financial assets, which are measured at fair value through other comprehensive income.

Trade receivables of RMB107,037,000 (2018: RMB151,780,000) have been pledged to a bank as security for the Group's bank loans as disclosed in Note 27.

The Group's exposure to credit risks and foreign currency risks related to trade and other receivables are disclosed in Note 33.

23 Trade and other receivables (continued)

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 loss allowance, is as follows:

	2019	2018
	RMB'000	RMB'000
Within 3 months	**1,606,362**	1,592,295
4 to 6 months	**238,911**	177,310
7 to 12 months	**213,164**	52,609
1 to 2 years	**100,158**	152,084
Over 2 years	**1,901**	24,813
	2,160,496	1,999,111

Trade and bills receivables are due from 90 to 180 days from the date of billing. Further details on the Group's credit policy and credit risk arising for trade and bills receivable are set out in Note 33(a).

24 Pledged deposits

As at 31 December 2019, bank deposits of RMB610,400,000 (2018: RMB464,500,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities (as described in Note 27). 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 33.

25 Time deposits

As at 31 December 2019, time deposits of RMB500,000,000 (2018: RMB717,414,000) 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 33.

26 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

As at 31 December 2019 and 2018, 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.

	2019 **RMB'000**	2018 RMB'000
Cash at bank and on hand	**398,017**	583,235

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

	Note	**2019** **RMB'000**	2018 RMB'000
Profit before taxation		**450,371**	280,568
Adjustments for:			
Depreciation of property, plant and equipment	8(c)	**239,555**	225,673
Depreciation of lease prepayments	8(c)	**2,843**	1,854
Interest income	8(a)	**(26,450)**	(7,233)
Interest on bank loans	8(a)	**156,636**	142,071
Net loss/(gain) on disposal of property, plant and equipment	7	**217**	(1,639)
Dividends received from listed securities	6	**(4,200)**	(1,800)
Net realised and unrealised losses on trading securities	7	**420**	947
Unrealised fair value changes of financial asset at fair value through profit or loss	6	**(6,530)**	–
(Reversal)/provision of loss allowance for trade receivables	8(c)	**(11,973)**	35,374
Share of losses/(profits) of associates	18	**544**	(2,349)
Share of losses/(profits) of joint ventures	19	**6,468**	(10,893)
Equity settled share-based payment expenses	8(b)	**4,258**	10,063
Operating profit before changes in working capital		**812,159**	672,636
Change in inventories		**259,623**	(97,423)
Change in trade and other receivables		**(344,574)**	(377,915)
Change in trade and other payables		**(310,299)**	608,591
Change in deferred income		**2,101**	12,501
Net cash generated from operations		**419,010**	818,390

26 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 2018	2,993,292
Proceeds from interest-bearing borrowings	4,937,670
Repayment of interest-bearing borrowings	(4,747,183)
Changes from financing cash flows	190,487
At 31 December 2018 and 1 January 2019	3,183,779
Proceeds from interest-bearing borrowings	3,274,060
Repayment of interest-bearing borrowings	(3,206,106)
Changes from financing cash flows	67,954
At 31 December 2019	3,251,733

26 Cash and cash equivalents (continued)

(d) Trade cash outflow for lease

Amounts included in the cash flow statement for leases comprise the following:

	2019	2018
	RMB'000	RMB'000
Within operating cash flows	**502**	1,059
Within investing cash flows	**22,568**	24,607
	23,070	25,666

These amounts relate to the following:

	2019	2018
	RMB'000	RMB'000
Lease rentals paid	**502**	1,059
Purchase of leasehold land	**22,568**	24,607
	23,070	25,666

27 Interest-bearing borrowings

	Note	2019 RMB'000	2018 RMB'000
Current			
Secured bank loans	(i)	**392,087**	332,765
Unsecured bank loans	(ii)	**1,421,640**	1,205,365
Current portion of non-current unsecured bank loans		**799,118**	746,472
		2,612,845	2,284,602
Non-current			
Unsecured bank loans	(iii)	**1,438,006**	1,645,649
Less: Current portion of non-current unsecured bank loans		**(799,118)**	(746,472)
		638,888	899,177
		3,251,733	3,183,779

Notes:

(i) The current secured bank loans are secured by certain trade receivables and sales contracts at annual interest rates ranging from 0.70% to 3.92% (2018: 0.90% to 4.20%) per annum.

(ii) Current unsecured bank loans carry interest at annual rates ranging from 1.00% to 5.22% (2018: 1.55% to 5.22%) per annum, and are all repayable within one year.

(iii) Non-current unsecured bank loans carry interest at annual rates ranging from 2.92% to 5.15% (2018: 2.65% to 5.13%) per annum.

27 Interest-bearing borrowings (continued)

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

	2019	2018
	RMB'000	RMB'000
Within 1 year	**799,118**	746,472
Over 1 year but less than 2 years	**500,545**	899,177
Over 2 years but less than 5 years	**138,343**	–
	1,438,006	1,645,649

As at 31 December 2018 and 2019, 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. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 33(b).

More information about the Group's exposure to interest rate, foreign currency and liquidity risks is disclosed in Note 33.

28 Trade and other payables

	2019	2018
	RMB'000	RMB'000
Trade and bills payables	**1,370,633**	1,740,593
Contract liabilities	**87,694**	32,434
Non-trade payables and accrued expenses	**142,531**	138,424
	1,600,858	1,911,451

The Group's exposure to liquidity and foreign currency risks related to trade and other payables is disclosed in Note 33.

28 Trade and other payables (continued)

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

	2019 **RMB'000**	2018 RMB'000
Within 3 months	**750,743**	1,022,521
4 to 6 months	**434,420**	375,682
7 to 12 months	**128,327**	291,150
1 to 2 years	**22,191**	19,427
Over 2 years	**34,952**	31,813
	1,370,633	1,740,593

29 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. During 2019, the Group received RMB7,380,000 conditional government grants (2018: RMB18,000,000) to support the capital investments of the Group. As at 31 December 2019, the carrying amount of deferred income in respect of government grants after amortisation (Note 6(i)) amounted to RMB57,878,000 (2018: RMB55,777,000) of which RMB51,369,000 (2018: RMB50,498,000) was classified as non-current deferred income.

30 Equity settled share-based transactions

The Group has a share option scheme which was adopted on 7 July 2007 and expired on 6 July 2017 and has adopted a new share option scheme on 26 May 2017, 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 to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 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
— on 11 January 2018	2,550,000	On 31 March 2019 and subject to performance conditions (Note)	1.97 years and expires at close of business on 31 December 2019
— on 11 January 2018	2,550,000	On 31 March 2020 and subject to performance conditions (Note)	2.97 years and expires at close of business on 31 December 2020
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
— on 11 January 2018	27,450,000	On 31 March 2019 and subject to performance conditions (Note)	1.97 years and expires at close of business on 31 December 2019
— on 11 January 2018	27,450,000	On 31 March 2020 and subject to performance conditions (Note)	2.97 years and expires at close of business on 31 December 2020
Total share options granted	82,147,000		

Note:

The share options granted on 11 January 2018 shall be vested when the following performance conditions are satisfied:

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

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 Equity settled share-based transactions (continued)

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

	2019		2018	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HKD1.575**	**82,147,000**	HKD1.780	22,147,000
Granted during the year	**–**	**–**	HKD1.500	60,000,000
Exercised during the year	**HKD1.500**	**(30,000,000)**	–	–
Forfeited during the year	**HKD1.780**	**(22,147,000)**	–	–
Outstanding at the end of the year	**HKD1.500**	**30,000,000**	HKD1.575	82,147,000
Exercisable at the end of the year	**–**	**–**	HKD1.780	22,147,000

The weighted average share price at the date of exercise for share options exercised during the year was HKD2.980 (2018: nil).

The options outstanding as at 31 December 2019 had an exercise price of HKD1.500 (2018: HKD1.780 or HKD1.500) and average remaining contractual life of 1.00 year (2018: 1.25 year).

(Expressed in Renminbi ("RMB") unless otherwise indicated)

30 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.

	Share options granted on 18 August 2014	Share options granted on 11 January 2018 (Lot A)	Share options granted on 11 January 2018 (Lot B)
Fair value at grant date	HKD0.59 per share option	HKD0.23 per share option	HKD0.34 per share option
Grant date share price	HKD1.78 per share	HKD1.29 per share	HKD1.29 per share
Exercise price	HKD1.78 per share	HKD1.50 per share	HKD1.50 per share
Expected volatility	48.17%	44.31%	49.44%
Contractual option life	5 years	1.97 years	2.97 years
Dividend yield	3.04%	1.76%	1.76%
— Risk-free interest rate	1.22%	1.29%	1.51%
Exercise multiple			
— Directors:	2.800	1.788	1.788
— Management:	2.800	–	–
— Employees:	2.200	1.768	1.768

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 granted.

31 Income tax in the consolidated statement of financial position

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

	2019	2018
	RMB'000	RMB'000
At the beginning of the year	**117**	4,164
Provision for PRC taxes for the year	**46,489**	3,199
Provision for Hong Kong Profits Tax for the year	**1,860**	245
Hong Kong Profits Tax paid	**–**	(63)
PRC taxes paid	**(20,344)**	(7,428)
At the end of the year	**28,122**	117

(b) Deferred tax assets recognised

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

Deferred tax arising from:	**Deductible tax losses**	**Unrealised profits**	**Loss allowance for trade and other receivables**	**Write-down of inventories**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	12,000	3,916	11,185	2,319	29,420
(Charged)/credited to profit or loss	(10,699)	1,228	4,489	736	(4,246)
Charged to reserves	21	–	–	–	21
At 31 December 2018 and 1 January 2019	1,322	5,144	15,674	3,055	25,195
(Charged)/credited to profit or loss	3,086	9,021	(1,524)	1,331	11,914
At 31 December 2019	4,408	14,165	14,150	4,386	37,109

In accordance with the accounting policy set out in Note 3(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB24,669,000 (2018: RMB12,112,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by subsidiaries in the PRC expire within 5 years from the year when such losses were incurred under current tax legislation.

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

(c) Deferred tax liabilities recognised and not recognised

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

Deferred tax arising from:	Undistributed profits of subsidiaries	Deductible capitalised borrowing costs	Revaluation of equity securities	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	4,704	42,972	9,525	57,201
Charged to profit or loss	–	5,908	–	5,908
Credited to reserves	–	–	(841)	(841)
At 31 December 2018	4,704	48,880	8,684	62,268
Charged to profit or loss	4,000	4,286	1,632	9,918
Charged to reserves	–	–	2,466	2,466
At 31 December 2019	8,704	53,166	12,782	74,652

As at 31 December 2019, deferred tax liabilities of RMB8,704,000 (2018: 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 RMB206,089,000 (2018: RMB172,457,000) have not been recognised in respect of distributable profits of the Group's PRC subsidiaries, 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 the undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future.

32 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	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2018		40,477	1,602,218	492	13,597	5,880	(432,814)	1,229,850
Changes in equity for 2018:								
Total comprehensive income for the year		–	–	–	–	(31)	62,590	62,559
Dividends approved in respect of the previous year	32(b)(ii)	–	–	–	–	–	(100,183)	(100,183)
Shares allotment		4,765	381,884	–	–	–	–	386,649
Issuance of share options	30	–	–	–	10,063	–	–	10,063
Balance at 31 December 2018 and 1 January 2019		45,242	1,984,102	492	23,660	5,849	(470,407)	1,588,938
Total comprehensive income for the year		–	–	–	–	102	15,583	15,685
Dividends approved in respect of the previous year	32(b)(ii)	–	–	–	–	–	(90,684)	(90,684)
Exercise of share options	32(c)(ii)	524	45,767	–	(5,805)	–	–	40,486
Equity settled share-based transactions	30	–	–	–	(6,143)	–	10,401	4,258
Balance at 31 December 2019		45,766	2,029,869	492	11,712	5,951	(535,107)	1,558,683

32 Capital, reserves and dividends (continued)

(b) Dividends

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

	2019 **RMB'000**	2018 RMB'000
Dividend proposed after the end of the reporting period of RMB0.0545 per ordinary share (2018: RMB0.0357 per ordinary share)	**138,301**	90,592

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:

	2019 **RMB'000**	2018 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0357 per ordinary share (2018: RMB0.0378 per ordinary share)	**90,684**	100,183

In respect of the final dividend for the year ended 31 December 2018, there is a difference of RMB92,000 (2017: RMB15,633,000) between the final dividend disclosed in the 2018 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 2018 annual result announcement and the actual exchange rate applied on the date of payment.

32 Capital, reserves and dividends (continued)

(c) Share capital

(i) Issued and fully paid share capital

Authorised:

	2019 and 2018	
	No. of Shares ('000)	**Amount USD** '000
Ordinary shares of USD0.0025 each (2018: USD0.0025)	4,000,000	10,000

Ordinary shares issued and fully paid:

	2019			2018		
	No. of shares ('000)	**Amount USD '000**	**RMB equivalent '000**	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	**2,539,050**	**6,347**	**45,242**	2,239,050	5,597	40,477
Shares allotment	**–**	**–**	**–**	300,000	750	4,765
Exercise of share options	**30,000**	**75**	**524**	–	–	–
At 31 December	**2,569,050**	**6,422**	**45,766**	2,539,050	6,347	45,242

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

On 30 August 2019, 24 December 2019 and 27 December 2019, 150,000, 150,000 and 29,700,000 options were respectively exercised to subscribe for a total of 30,000,000 ordinary shares in the Company at a consideration of HKD45,000,000, of which HKD582,000 (equivalent to RMB524,000 or USD75,000) was credited to share capital and HKD44,418,000 (equivalent to RMB39,962,000) was credited to share premium. RMB5,805,000 was transferred from the capital reserve to the share premium account in accordance with the policy set out in Note 3(n)(ii).

32 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(n)(ii); and

— Consideration received from issuance of warrants in accordance with the terms of warrant placing agreements 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 overseas equity-accounted investees. The reserve is dealt with in accordance with the accounting policies set out in Notes 3(a), 3(b) and 3(r).

32 Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 3(d)).

(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 these subsidiaries' 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 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,494,762,000 (2018: RMB1,513,695,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.0545 per ordinary share (2018: RMB0.0357), amounting to RMB138,301,000 (2018: RMB90,592,000). 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.

32 Capital, reserves and dividends (continued)

(f) Capital management (continued)

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 2019, the Group's strategy was to maintain a stable adjusted net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group's adjusted net debt-to-capital ratios at 31 December 2019 and 2018 were as follows:

	Note	**2019** **RMB'000**	2018 RMB'000
Current liabilities:			
Interest-bearing borrowings	27	**2,612,845**	2,284,602
Non-current liabilities:			
Interest-bearing borrowings	27	**638,888**	899,177
Total debt		**3,251,733**	3,183,779
Add: Proposed dividends	32(b)	**138,301**	90,592
Less: Cash and cash equivalents	26	**(398,017)**	(583,235)
Adjusted net debt		**2,992,017**	2,691,136
Total equity		**5,203,134**	4,822,960
Less: Proposed dividends	32(b)	**(138,301)**	(90,592)
Adjusted capital		**5,064,833**	4,732,368
Adjusted net debt-to-capital ratio		**59%**	57%

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

33 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

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 refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, time deposits, pledged deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

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

Trade receivables

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. At the end of the reporting period, Nil% (2018: Nil%) and 9% (2018: 6%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within DS, HSS and trading of goods segments.

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 take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90–180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowance for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

33 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2019		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**1.0%**	**663,841**	**6,461**
1–3 months past due	**4.2%**	**249,281**	**10,370**
4–6 months past due	**7.4%**	**175,082**	**12,966**
7–12 months past due	**10.1%**	**74,562**	**7,523**
1–2 years past due	**19.4%**	**106,805**	**20,736**
More than 2 years past due	**100.0%**	**35,654**	**35,654**
		1,305,225	**93,710**

	2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	1.0%	687,787	6,966
1–3 months past due	4.0%	187,471	7,454
4–6 months past due	7.4%	52,979	3,942
7–12 months past due	10.0%	119,931	12,034
1–2 years past due	36.0%	109,083	39,217
More than 2 years past due	100.0%	36,255	36,255
		1,193,506	105,868

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

33 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 **RMB'000**	2018 RMB'000
Balance at 1 January	**105,868**	73,230
Amounts written-off during the year	**(185)**	(2,736)
Loss allowance (reversed)/recognised during the year	**(11,973)**	35,374
Balance at 31 December	**93,710**	105,868

The following significant changes in the gross carrying amounts of trade receivables contributed to the decrease in the loss allowance during 2019:

— origination of new trade receivables net of those settled resulted in a decrease in loss allowance of RMB505,000 (2018: RMB9,366,000);

— decrease in days past due resulted in a decrease in loss allowance of RMB11,468,000 (2018: an increase of RMB44,740,000); and

— a write-off of trade receivables with a gross carrying amount of RMB185,000 (2018: RMB2,736,000) resulted in a decrease in loss allowance of RMB185,000 (2018: RMB2,736,000).

33 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. 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.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's 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:

	Note	**2019 Contractual undiscounted cash outflow**				
		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 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Interest-bearing borrowings	27	**2,686,643**	**516,780**	**146,581**	**3,350,004**	**3,251,733**
Trade and other payables	28	**1,600,858**	**–**	**–**	**1,600,858**	**1,600,858**
		4,287,501	**516,780**	**146,581**	**4,950,862**	**4,852,591**

	Note	2018 Contractual undiscounted cash outflow				
		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 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Interest-bearing borrowings	27	2,360,256	919,552	–	3,279,808	3,183,779
Trade and other payables	28	1,911,451	–	–	1,911,451	1,911,451
		4,271,707	919,552	–	5,191,259	5,095,230

33 Financial risk management and fair values of financial instruments (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.

	2019 Exposure to foreign currencies (expressed in RMB)			2018 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	**444,735**	**428,714**	**–**	339,531	414,522	–
Cash and cash equivalents	**11,638**	**16,324**	**6,657**	50,221	65,312	6,886
Pledged deposits	**–**	**–**	**–**	–	617	–
Trade and other payables	**(177,695)**	**–**	**–**	(115,318)	–	–
Interest-bearing borrowings	**(693,693)**	**(509,103)**	**(135,752)**	(389,184)	(523,511)	(159,083)
Net exposure arising from recognised assets and liabilities	**(415,015)**	**(64,065)**	**(129,095)**	(114,750)	(43,060)	(152,197)

33 Financial risk management and fair values of financial instruments (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.

	2019		2018	
	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%**	**(18,006)**	5%	(5,772)
EUR	**5%**	**(5,352)**	5%	(3,693)
HKD	**5%**	**(5,722)**	5%	(6,661)

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 2018.

33 Financial risk management and fair values of financial instruments (continued)

(d) Interest rate risk

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

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

Interest-bearing borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in Note 27.

(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:

	2019		2018	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.70%–5.22%**	**(444,583)**	0.90%–5.22%	(590,185)
Pledged deposits	**1.35%–1.55%**	**610,400**	1.15%–1.75%	464,500
Time deposits	**1.35%–3.70%**	**500,000**	1.10%–1.50%	717,414
		665,817		591,729
Variable rate instruments				
Interest-bearing borrowings	**1.00%–5.15%**	**(2,807,150)**	2.00%–5.13%	(2,593,594)

(ii) Sensitivity analysis

As at 31 December 2019, 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 RMB23,861,000 (2018: RMB22,188,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate non-derivative instruments held by the Group, which expose the Group to cash flow interest rate risk 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 2018.

33 Financial risk management and fair values of financial instruments (continued)

(e) Equity price risk

The Group is mainly exposed to equity price changes arising from equity investments held for non-trading purposes (see Note 20).

The Group's equity investment listed on the Stock Exchange of Shanghai (the "SESH") and the National Equities Exchange and Quotations System (the "NEEQ") that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

Except for the trading securities, all of the Group's equity investments and units in investment fund are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

At 31 December 2019, it is estimated that an increase/(decrease) of 10% (2018: 10%) in the relevant equity price as applicable, with all other variables held constant, would have increased/(decreased) the Group's profit after tax (and retained earnings) and fair value reserve (non-recycling) of consolidated equity as follows:

	2019			2018		
		Effect on profit after tax and retained earnings RMB'000	**Effect on fair value reserve (non-recycling) RMB'000**		Effect on profit after tax and retained earnings RMB'000	Effect on fair value reserve (non-recycling) RMB'000
Changes in the relevant equity price risk variable:						
Increase	**10%**	**1,990**	**9,347**	10%	–	8,099
Decrease	**(10%)**	**(1,990)**	**(9,347)**	(10%)	–	(8,099)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained earnings) and fair value reserve (non-recycling) of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables 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 equity price risk at the end of the reporting period. It is also assumed that the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2018.

33 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

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

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

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

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

Analysis on fair value measurement of derivative financial instruments are as follows:

	Fair value at 31 December 2019	**Fair value measurement at 31 December 2019 categorised into**		
	RMB'000	**Level 1**	**Level 2**	**Level 3**
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	**72,400**	**72,400**	**–**	**–**
— Listed equity securities — NEEQ	**35,120**	**–**	**–**	**35,120**
— Unlisted equity security	**7,450**	**–**	**–**	**7,450**
— Unlisted units in investment fund	**26,530**	**–**	**–**	**26,530**
Trading securities:				
— Listed equity securities	**2,765**	**2,765**	**–**	**–**
Trade and other receivables:				
— Bills receivable	**948,981**	**–**	**948,981**	**–**

33 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2018	Fair value measurement at 31 December 2018 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	59,700	59,700	–	–
— Listed equity securities — NEEQ	21,259	–	–	21,259
— Unlisted equity securities	19,065	–	–	19,065
Trading securities:				
— Listed equity securities	1,482	1,482	–	–
Trade and other receivables:				
— Bills receivable	911,473	–	911,473	–

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of the bills receivable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed to be approximate to their carrying amounts.

Fair value of the equity securities listed on the NEEQ, which do not have quoted price in active markets, and that of unlisted equity securities and unlisted units in investment fund mentioned in Note 20 is determined using the price/earning or price/book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

33 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

(i) Financial assets measured at fair value (continued)

Fair value hierarchy (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019	2018
	RMB'000	RMB'000
Unquoted equity securities and units in investment fund:		
At 1 January	**40,324**	15,400
Payment for purchases of other financial assets	**20,000**	20,010
Net unrealised gains recognised in other comprehensive income during the year	**2,246**	4,914
Changes in fair value recognised in profit or loss during the period	**6,530**	–
At 31 December	**69,100**	40,324

Any gains or losses arising from the remeasurement of the Group's listed and unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

(ii) Fair value of financial assets and liabilities carried at other than fair value

All financial instruments measured at other than fair value are carried at cost or amortised cost that were not materially different from their fair values as at 31 December 2019 and 31 December 2018.

34 Commitments

(a) Capital commitments outstanding as at 31 December 2019 not provided for in the consolidated financial statements were as follows:

	2019	2018
	RMB'000	RMB'000
Contracted for	**92,792**	90,265
Authorised but not contracted for	**257,995**	368,332
	350,787	458,597

(b) As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018
	RMB'000
Within 1 year	1,516
After 1 year but within 5 years	1,301
After 5 years	–
	2,817

The Group is the lessee in respect of a plant and an office held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 3(f).

35 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

	2019 **RMB'000**	2018 RMB'000
Sale of goods to:		
Joint ventures	**312,274**	222,190
Associates	**286,286**	395,609
Controlling shareholder's family member's company	**10,829**	26,511
	609,389	644,310
Purchase of goods from:		
Controlling shareholder's family member's company	**3,176**	–
Freight expenses to:		
Associates	**–**	615
Lease expenses to:		
Controlling shareholder's company	**–**	1,000
Controlling shareholder's family member's company	**56**	–
	56	1,000
Acquisition of building and leasehold land from:		
Controlling shareholder's company	**100,000**	–
Acquisition of machinery from:		
Controlling shareholder's family member's company	**15,877**	–

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.

35 Material related party transactions (continued)

(b) Transactions with related companies (continued)

(ii) Significant related party balances

	2019 RMB'000	2018 RMB'000
Trade and other receivables due from		
Joint ventures	**370,417**	305,802
Associates	**53,733**	49,542
Controlling shareholder's family member's company	**57**	3,534
	424,207	358,878
Trade and other payables due to		
Associates	**154**	2,374
Joint ventures	**27**	–
Controlling shareholder's family member's company	**53,285**	–
	53,466	2,374

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

The related party transactions in respect of lease expenses paid, goods sold to, goods purchased from and acquisition of machinery from the controlling shareholder's family member's company, lease expenses paid and acquisition of building and leasehold land from the controlling shareholder's company mentioned in Note 35(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided under the section "Continuing Connected Transactions" in the Report of Directors. The lease expenses paid to the controlling shareholder's company are continuing connected transactions but are exempted from these disclosure requirements as they are below the deminimis threshold under Rule 14A.76(1). Apart from these transactions, none of the other related party transactions mentioned in Note 35 fall under the definition of a connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

36 Company-level statement of financial position

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		**11**	11
Interests in subsidiaries		**1,608,822**	1,700,428
Interests in associates		**29,371**	28,582
		1,638,204	1,729,021
Current assets			
Cash and cash equivalents		**3,629**	6,929
		3,629	6,929
Current liabilities			
Interest-bearing borrowings		**81,118**	112,014
Trade and other payables		**2,032**	682
		83,150	112,696
Net current liabilities		**(79,521)**	(105,767)
Total assets less current liabilities		**1,558,683**	1,623,254
Non-current liabilities			
Interest-bearing borrowings		**–**	34,316
		–	34,316
Net assets		**1,558,683**	1,588,938
Capital and reserves			
Share capital	32(a)/(c)	**45,766**	45,242
Reserves	32(a)	**1,512,917**	1,543,696
Total equity		**1,558,683**	1,588,938

Approved and authorised for issue by the board of directors on 20 March 2020.

Zhu Xiao Kun
Directors

Yan Rong Hua
Directors

37 Accounting estimates and judgements

Note 16, 30(c) and 33(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

Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves a high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(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.

38 Comparative Figures

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 4(a).

As further explained in Note 4(b), pursuant to the presentation format of the financial statements specified in Caikuai [2018] No.15 and related interpretation and in order to provide a more comparable and consistency presentation with other companies in the industry that the Group operates, the Group adjusts the related presentation in the consolidated financial statements accordingly. The Group has applied such presentation and disclosures retrospectively by restating the comparative figures in the consolidated statement of profit or loss.

39 Immediate and ultimate controlling party

At 31 December 2019, 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.

40 Non-adjusting events after the reporting period

(a) After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in Note 32(b).

(b) The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: increasing options for logistics and transportation, evaluating the supply readiness of raw materials suppliers and negotiating with customers on delivery schedule. The Group will keep contingency measures under review as the situation evolves.

41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17 Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL INFORMATION SUMMARY

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**5,369,873**	5,021,546	3,898,443	3,376,134	3,429,397
Profit before taxation	**450,371**	280,568	218,097	130,916	85,205
Income tax	**(46,353)**	(13,598)	(43,396)	(14,920)	(13,074)
Profit for the year	**404,018**	266,970	174,701	115,996	72,131
Other comprehensive income/(loss) for the year	**14,360**	(11,607)	(14,555)	45,713	(27,787)
Attributable to:					
Equity shareholders of the Company	**409,452**	247,228	154,544	156,284	44,836
Non-controlling interests	**8,872**	8,135	5,602	5,425	(492)
Earnings per share (RMB)					
Basic (RMB)	**0.156**	0.106	0.076	0.050	0.033

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**4,261,913**	3,923,593	3,801,667	3,737,020	3,432,974
Current assets	**5,954,464**	6,112,759	4,902,213	4,558,884	4,950,998
Total assets	**10,216,377**	10,036,352	8,703,880	8,295,904	8,383,972
Liabilities					
Non-current liabilities	**764,909**	1,011,943	917,991	309,029	578,292
Current liabilities	**4,248,334**	4,201,449	3,482,924	3,831,441	3,929,393
Total liabilities	**5,013,243**	5,213,392	4,400,915	4,140,470	4,507,685
Equity					
Total equity	**5,203,134**	4,822,960	4,302,965	4,155,434	3,876,287

Note: The results of the Group for the four financial years ended 31 December 2015, 2016, 2017 and 2018 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
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong Legal Adviser
Reed Smith Richards Butler
17th Floor, One Island East
18 Westlands Road
Taikoo Place, Quarry Bay
Hong Kong

Principal Share Registrar and Transfer Office
SMP Partners (Cayman) Limited
Royal Bank House, 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110, Cayman Islands

CORPORATE INFORMATION

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

Investor Relations

Email: tiangong@biznetvigator.com
Telephone: (852) 3102-2386
Fax: (852) 3102-2331