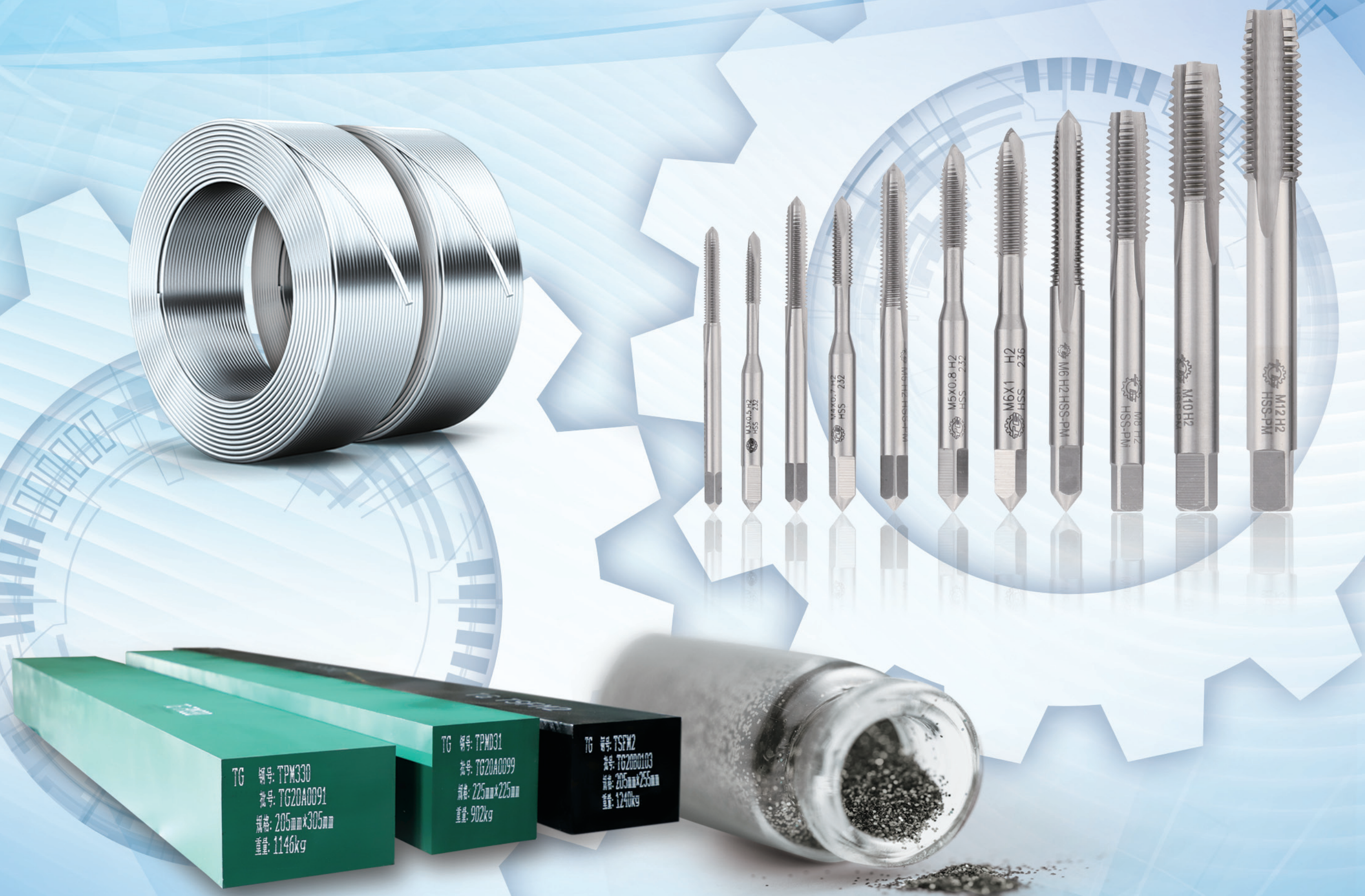
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826



2020
ANNUAL REPORT

* For identification purpose only

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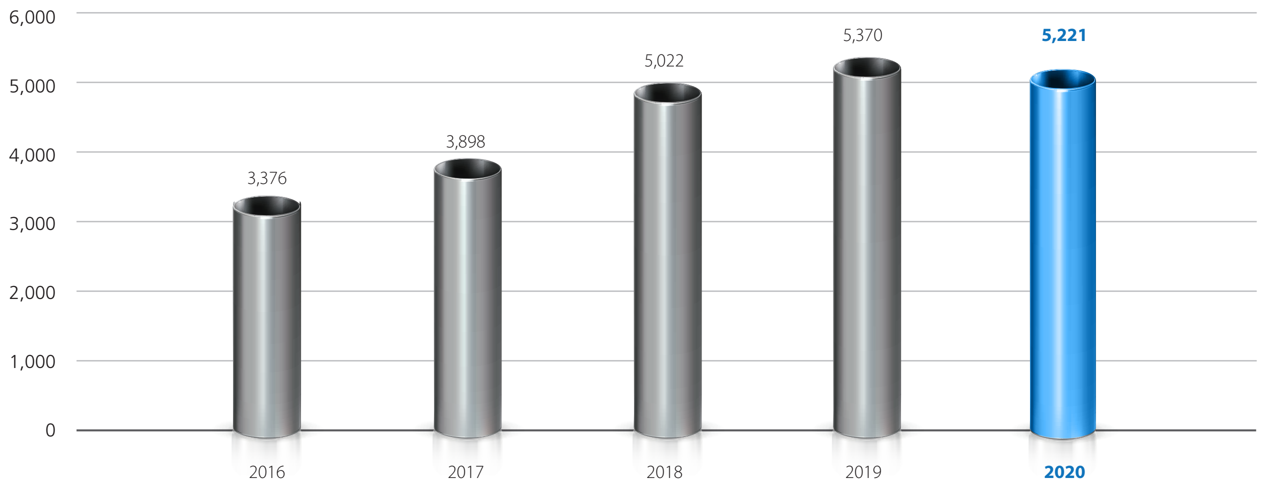
FINANCIAL HIGHLIGHTS

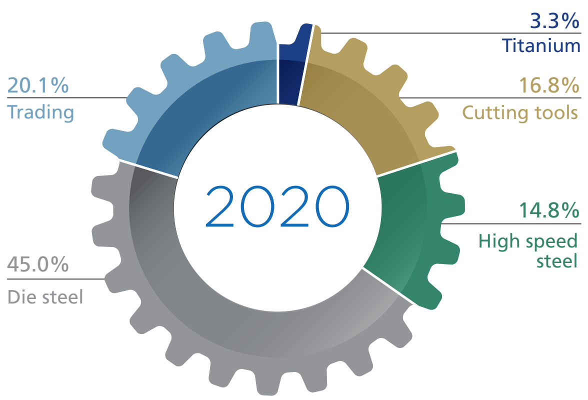
	2020	2019
Revenue (RMB'000)	**5,220,944**	5,369,873
Net profit for the year attributable to equity shareholders of the Company (RMB'000)	**537,024**	395,146
Basic earnings per share (RMB)	**0.209**	0.156
Proposed final dividend per share (RMB)	**0.0732**	0.0545

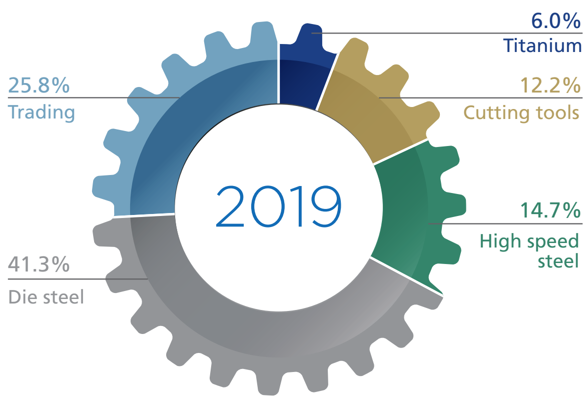
Revenue

RMB' million



Revenue by Product Mix





CHAIRMAN'S STATEMENT

In a business environment full of challenges, the Group powered forward to further consolidate our world-leading position in the field of new materials and high-end manufacturing, by successfully seized the market opportunity of import substitution, dismantling the international monopoly through groundbreaking technological achievements, strengthening our domestic leading position; and achieving rewarding results for the year.

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 the audited annual results for the year ended 31 December 2020.

In 2020, amid the global COVID-19 outbreak, the Group turned adversity into opportunity, focused on our main businesses, achieved the best business performance in our history and maintained continuous and steady improvement for all key financial indicators. The Group successfully took the first step in import substitution in the domestic market, and the four core businesses recorded steady growth. As a result, gross profit for the Group increased by 19.1% to RMB1,214 million. Driven by continuous optimization of our product mix and the transformation of our sales channels, coupled with high gross profit of high-end products and powder metallurgy products, the Group's overall gross profit margin surged 4.3 percentage points to 23.3% in 2020 from 19.0% in 2019. The net profit for the year attributable to equity shareholders of the Group reached RMB537 million, a solid hurdle of 35.9% over the previous year. The earnings per share (basic) also increased significantly by 34.0% to RMB0.209, indicating continued improvement in profitability.

Although the global economy was negatively impacted by COVID-19 in 2020, the restricted import of die steel ("DS") brought important opportunity for substitution of imported DS by domestic product manufacturings. With cutting-edge technologies, first-class product quality, and our positioning as a leading DS manufacturer, the Group won new orders from multiple domestic customers, thus realizing a significant increase of domestic DS sales by 37.8%, a sharp increase of domestic revenue by 47.3%, and a strong expansion of our market share.

CHAIRMAN'S STATEMENT

According to a recent report of the leading global research centre, Steel & Metals Market Research ("SMR"), the Group still ranks second among global DS and high speed steel ("HSS") manufacturers. The Group also ranks first globally for 16 consecutive years and nationally for 23 consecutive years in terms of annual production capacity of HSS products.

During the year, the Group succeeded in overcoming the bottleneck in powder metallurgy technologies, thus dismantling the international monopoly. The Group became the one and only domestic enterprise skilled in the technologies of large-scale production of tool DS powder metallurgy, thus injecting important impetus into the Group's future development.

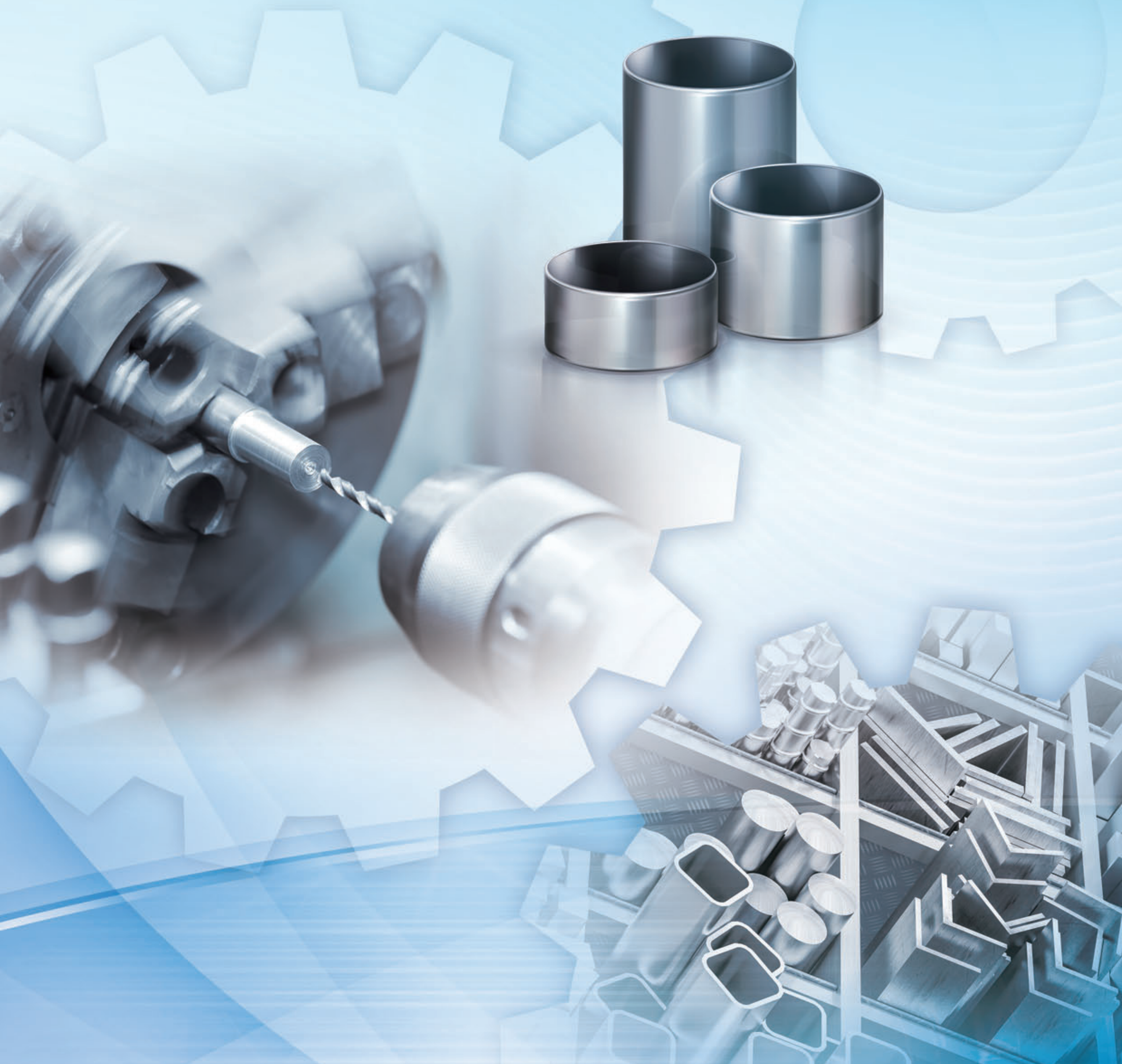
In terms of production capacity, the Group pushed ahead with its international footprint to better tackle changes in the global economy. In the field of high-end precision tools, the Group's first overseas high-automated cutting tool plant in Thailand was officially completed in 2020. It is anticipated that cordless power tools will drive the global demand for power tools in the future. By establishing a plant in Thailand, the Group is capable of meeting increasing demand for precision tools in North America and Southeast Asia. Meanwhile, the Group actively expanded its downstream businesses. By cooperating with downstream zero-cut and heat treatment plants for DS products, the Group will transform itself from a supplier of materials to a supplier of materials and services, thus further enhancing customer allegiances.

China has included special steel products in her Catalogue of Key Products in New Material Industries under the 13th Five-Year Plan and classified HSS and DS as key developing advanced basic materials under the Made in China 2025 Plan, which opens a new chapter for the high-quality development of special steel. In order to capitalize on increasing domestic and international demand for special steel products, the Group invited 13 strategic investors to participate in its subsidiary, Jiangsu Tiangong Tools Co. Ltd ("TG Tools") at the end of 2020, and announced in March 2021 that it intends to spin off TG Tools for independent listing on a China stock exchange. As a leading DS manufacturer, TG Tools will continue to explore high-end new materials and extend to downstream businesses. By taking such measures, it aims to advance into international cutting-edge technologies and high-end application areas and is committed to becoming a global supplier of manufacturing and technological services for new materials.

Looking ahead, the Group is dedicated to becoming a first-class enterprise which leads the world in development of new materials industry and helps China's manufacturing industry transform more smoothly into the high-end. The Group will expand its online sales, ramp up the proportion of direct sales, increase brand awareness and product gross margin, while focusing on the development of high-end carbide cutting tools with higher alloy content and more added value. Meanwhile, the Group will vigorously promote the application of powder metallurgy HSS cutting tools, realize the import substitution for screw taps and complex cutting tools and improve the processing capacity of manufacturing machine tools. As for overseas markets, the Group will expand into the North American market. By doing so, it will increase production of titanium alloy wires for 3D printing and penetrate into the field of additive manufacturing, with a view to creating greater and longer-term returns for its shareholders.

Finally, on behalf of the Board, I would like to express my sincere thanks to the management and all of our staff for their outstanding performance in the past year, which were key to the Group's success in achieving fantastic results once again. I would also like to take this opportunity to express my heartfelt gratitude to all shareholders, customers and business partners for their continued support and assistance.

MANAGEMENT
DISCUSSION & ANALYSIS



Business review

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
DS	**2,351,218**	**45.0**	2,215,337	41.3	135,881	6.1
HSS	**775,501**	**14.8**	791,116	14.7	(15,615)	(2.0)
Cutting tools	**875,166**	**16.8**	657,094	12.2	218,072	33.2
Titanium alloy	**170,474**	**3.3**	321,709	6.0	(151,235)	(47.0)
Trading of goods	**1,048,585**	**20.1**	1,384,617	25.8	(336,032)	(24.3)
	5,220,944	**100.0**	5,369,873	100.0	(148,929)	(2.8)

DS — accounted for 45.0% of the Group's revenue in FY 2020

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
DS						
Domestic	**1,590,257**	**67.6**	1,079,521	48.7	510,736	47.3
Export	**760,961**	**32.4**	1,135,816	51.3	(374,855)	(33.0)
	2,351,218	**100.0**	2,215,337	100.0	135,881	6.1

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.

In 2020, clouded by the Novel Coronavirus (COVID-19) pandemic worldwide, the operating environment for domestic and overseas markets has been severely affected and economic activities in various regions have been paralysed. Meanwhile, the pandemic has also brought a new normal in business for many industries. Although industrial production activities in overseas regions remained stagnant, thanks to those stringent prevention and control measures against the pandemic adopted in China, most of the domestic production industries have fully resumed work and production in the second half of the year. Amidst such difficult environment, the sales volume of DS products increased by 7.2% while the average selling price decreased slightly by 1.0%. Overall revenue contributed by DS segment increased by approximately 6.1% to RMB2,351,218,000 (2019: RMB2,215,337,000).

Due to the on-going pandemic, resumption of work in Europe, America and Japan have been seriously affected, which accelerated the shift towards domestic products as a substitute. The substituted overseas orders brought new opportunities for the industry. As a result, overall domestic sales volume and average selling price of DS products increased by 37.8% and 6.9%, respectively. Domestic revenue increased by 47.3% to RMB1,590,257,000 (2019: RMB1,079,521,000).

On the export side, due to the wide spread of COVID-19 in Europe and North America region, resumption of production for overseas customers remained slow, thereby affecting the overseas demand for DS products. As a result, overall export sales volume and average selling price of DS products decreased by 29.4% and 5.0%, respectively. During the year under review, revenue from export sales of DS products decreased by 33.0% to RMB760,961,000 (2019: RMB1,135,816,000).

HSS — accounted for 14.8% of the Group's revenue in FY 2020

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**535,339**	**69.0**	513,163	64.9	22,176	4.3
Export	**240,162**	**31.0**	277,953	35.1	(37,791)	(13.6)
	775,501	**100.0**	791,116	100.0	(15,615)	(2.0)

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.

Under the pandemic, various countries have to adjust to a new normal. Stay-at-home economy has become an important driving force for economic activities in certain regions. Therefore, driven by stay-at-home economy, the market demand for metal cutting tools that use HSS as a raw material has been boosted by the increasing demand for home DIY tools and maintained a steady growth trend.

China is one of the main cutting tool-producing countries. As most of the domestic downstream cutting tool production enterprises have fully resumed work and production in the second half of the year, thereby continuously supporting the demand for HSS, revenue from domestic market increased by 4.3% to RMB535,339,000 (2019: RMB513,163,000).

In contrast, the speed of resumption of overseas cutting tool enterprises was relatively slow, resulting in a decrease in export revenue of 13.6% to RMB240,162,000 (2019: RMB277,953,000).

As a result, overall revenue of HSS decreased slightly by 2.0% to RMB775,501,000 (2019: RMB791,116,000).

Cutting tools — accounted for 16.8% of the Group's revenue in FY 2020

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Cutting tools						
Domestic	**256,637**	**29.3**	229,192	34.9	27,445	12.0
Export	**618,529**	**70.7**	427,902	65.1	190,627	44.5
	875,166	**100.0**	657,094	100.0	218,072	33.2

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 April 2020, as the pandemic in China stabilised, manufacturing industries continued to make progress towards resumption of work and production. In 2020, riding on China's gross domestic product (GDP) exceeding RMB100 trillion for the first time and continuous demand for cutting tools, domestic sales volume of cutting tools increased by 24.3% while the average selling price decreased by 9.9%. Consequently, revenue contributed by cutting tools segment increased by 12.0% to RMB256,637,000 (2019: RMB229,192,000).

Since 2007, the Group has become one of the largest manufacturers of cutting tools in China. By focusing on exploring overseas markets, mid-end product business of the Group, in particular, was well-developed. Due to the absorption of certain OEM orders from one of its major competitors since fall 2019, an increase in overseas markets share resulted in a significant increase in export sales volume and average selling price by 21.5% and 19.0% respectively during the period. As a result, export revenue recorded an increase of 44.5% to RMB618,529,000 (2019: RMB427,902,000).

Driven by the abovementioned positive factors, overall revenue of cutting tools increased significantly by 33.2% to RMB875,166,000 (2019: RMB657,094,000).

Titanium alloy — accounted for 3.3% of the Group's revenue in FY 2020

	For the year ended 31 December					
	2020		2019		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Titanium alloy						
Domestic	**168,026**	**98.6**	319,638	99.4	(151,612)	(47.4)
Export	**2,448**	**1.4**	2,071	0.6	377	18.2
	170,474	**100.0**	321,709	100.0	(151,235)	(47.0)

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.

The titanium alloy segment was more affected by the outbreak of COVID-19. The demand for titanium alloy products was not as keen as other more common industrial materials. Alternative materials with lower prices were also available in the market. Therefore, the speed of demand recovery for titanium alloy of downstream enterprises was relatively slow. Accordingly, revenue contributed by titanium alloy segment decreased by 47.0% to RMB170,474,000 (2019: RMB321,709,000).

As the titanium alloy products of the Group have been awarded Quality Management System for Aerospace Certification issued by Bureau Veritas, a leading international certification body, and have been listed as key strategic materials, it is expected that its titanium alloy business will further flourish. The Group is confident that by adhering to the 2025 manufacturing transformation and upgrade plan, China's titanium processing industry will benefit from the rapid development of high-end sectors such as aerospace, pharmaceutical and marine engineering, and thus achieve recovery.

Trading of goods

This segment involves the purchases and sales of general carbon steel products which were not within the Group's production scope. During the year under review, the Group focused on its core businesses and reduced the volume of trading of goods business.

Financial review

Net profit attributable to equity shareholders of the Company increased by 35.9% from RMB395,146,000 in 2019 to RMB537,024,000 in 2020. The increase was mainly attributable to (i) the substitution of domestic demand for imported die steel by local products during the year: The Group, being one of the largest domestic producers of die steel, benefited from such substitution and the domestic sales volume increased significantly; and (ii) the absorption of certain OEM orders from one of its major competitors in cutting tools segment since fall 2019. An increase in market share of cutting tools segment resulted in a significant increase in sales volume during the year.

Revenue

Revenue of the Group for 2020 totalled RMB5,220,944,000, representing a decrease of 2.8% when compared with RMB5,369,873,000 in 2019. The decrease in revenue was mainly caused by the decrease in revenue from trading of goods. The total revenue from the other four major production segments increased by 4.7% to RMB4,172,359,000 (2019: RMB3,985,256,000). For the analysis of individual segments, please refer to the "Business Review" section.

Cost of sales

The Group's cost of sales was RMB4,006,964,000 in 2020, representing a decrease of 7.9% as compared with RMB4,350,214,000 in 2019, as a result of the decrease in trading.

Gross margin

For 2020, the overall gross margin was 23.3% (2019: 19.0%). Set out below is the gross margin of our five segments in 2020 and 2019:

	2020	2019
DS	**28.1%**	25.9%
HSS	**28.1%**	25.0%
Cutting tools	**18.9%**	16.3%
Titanium alloy	**18.2%**	20.3%
Trading of goods	**0.04%**	0.04%

DS

The gross margin of DS increased from 25.9% in 2019 to 28.1% in 2020. In 2020, average purchase prices of raw materials decreased compared with the same period of 2019. On the other hand, the Group's continuous development of direct sales to end customers supported a better selling price for the Group's products. The extent of adjustment on average selling price of the Group's products was lower than that of raw materials.

HSS

The gross margin of HSS increased from 25.0% in 2019 to 28.1% in 2020. The increase was mainly due to the combined effect of: (i) an increase in the proportion of higher-end products and powder metallurgy products with higher gross margin; and (ii) increase in selling price of HSS products due to the shortage of supplies affected by COVID-19.

Cutting tools

The gross margin of cutting tools increased from 16.3% in 2019 to 18.9% in 2020. The increase was mainly due to the combined effect of: (i) an increase in production quantity which resulted in a lower average fixed cost per unit; and (ii) the decrease of average purchase price of raw materials, in 2020.

Titanium alloy

The gross margin of titanium alloy segment decreased from 20.3% in 2019 to 18.2% in 2020. It was mainly because of the lower production and sales quantity realised in 2020, which resulted in a higher average fixed cost per unit.

Trading of goods

The gross margin of this segment remained stable at 0.04% (2019: 0.04%).

Other income

Other income increased from RMB55,895,000 in 2019 to RMB70,429,000 in 2020. The main reason for the increase was the substantial guaranteed return from investing spare funds in low risk structured deposits during the year.

Distribution expenses

Distribution expenses in 2020 were RMB87,489,000 (2019: RMB97,554,000), representing a decrease of 10.3%. The decrease was mainly due to the lower transportation cost incurred in 2020. Due to the outbreak of COVID-19, more revenue was generated from domestic sales comparing to 2019, the more expensive overseas transportation cost was reduced. In addition, toll-free arrangement was provided by the local government during the initial outbreak of COVID-19 in the first half of 2020. For 2020, distribution expenses as a percentage of revenue was 1.7% (2019: 1.8%).

Administrative expenses

Administrative expenses decreased from RMB129,363,000 in 2019 to RMB105,963,000 in 2020. The decrease was mainly due to the reduced personnel expenses. Local government exempted part of the social insurance contribution during the outbreak of COVID-19. Further, cost of share option scheme was allocated in 2019. There was no new share option granted during 2020 and no such cost was incurred in 2020. For 2020, administrative expenses as a percentage of revenue was 2.0% (2019: 2.4%).

Other expenses

Other expenses increased significantly from RMB1,990,000 in 2019 to RMB35,424,000 in 2020.

During the year, RMB appreciated against USD and depreciated against EUR. Offsetting the assets and liabilities denominated in foreign currencies, the Group had a net liabilities position in EUR. As a result, the Group recognised a net foreign exchanges losses of RMB23,723,000 in 2020.

Additional impairment of RMB6,081,000 was provided according to the credit loss estimation policy of the Group.

Further to the above, additional charitable donation of RMB2,529,000 was made in 2020. Most of these charitable donation was related to assistance provided during the COVID-19 outbreak.

Net finance costs

The Group's net finance costs decreased by 2.2% from RMB130,186,000 in 2019 to RMB127,309,000 in 2020, which was the result of the lower average interest rate on bank borrowing in 2020.

Income tax

As set out in Note 9 of the consolidated statement of profit or loss, the Group's income tax expense increased by 75.8% from RMB46,353,000 in 2019 to RMB81,495,000 in 2020. The increase was the combined effect of (i) increase in taxable operating profit of the Group in 2020; and (ii) one-off withholding tax arising from a intra-group reorganisation in 2020.

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 35.9% from RMB395,146,000 in 2019 to RMB537,024,000 in 2020. The margin of profit attributable to equity shareholders of the Company increased from 7.4% in 2019 to 10.3% in 2020.

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

For 2020, total comprehensive income for the year attributable to equity shareholders of the Company was RMB538,979,000 (2019: RMB409,452,000) after taking into account foreign currency translation differences and fair value adjustments on equity investments.

During the year, the Group debited to other comprehensive income a foreign currency translation difference of RMB6,795,000 (2019: debited RMB1,826,000) related to translation of financial statements of Hong Kong subsidiaries and overseas equity accounted investees.

The Group also recognised a fair value loss in the consolidated statement of profit or loss and other comprehensive income of RMB4,840,000 (2019: gain of RMB12,480,000) on its equity investments.

Financial Assets - Structured Deposits

During the reporting period, the Group subscribed certain structured deposits offered by certain banks during the usual course of treasury management by the Group. Details of the structured deposits that remain effective as at 31 December 2020 are set out below:

	Party	Counterparty	Principal amount (RMB)	Date of subscription
1	TG Tools	China Construction Bank Corporation, Danyang Branch (中國建設銀行有限公司丹陽支行) ("CCB")	100,000,000	4 March 2020
2	TG Tools	CCB	100,000,000	12 March 2020
3	TG Tools	CCB	100,000,000	13 March 2020 (Note 1)
4	TG Tools	Bank of Communications Co., Ltd., Zhanjiang Danyang Branch (交通銀行股份有限公司鎮江丹陽支行) ("BOCOM")	150,000,000	3 April 2020
5	TG Tools	Bank of Jiangsu Co., Ltd., Danyang Branch (江蘇銀行股份有限公司丹陽支行) ("Bank of Jiangsu")	100,000,000	27 November 2020
6	TG Tools	Bank of Jiangsu	100,000,000	4 December 2020
7	TG Tools	Bank of Jiangsu	100,000,000	11 December 2020 (Note 2)
8	江蘇天工精密工具有限公司 (Jiangsu Tiangong Precision Tools Company Limited*)	Bank of Jiangsu	100,000,000	11 December 2020 (Note 2)

Note 1: As transactions 1 to 3 were all entered with CCB ("CCB Subscriptions") and were of similar nature, the principal amount of the CCB Subscriptions would be aggregated (i.e. RMB300,000,000) for the purpose of computing the relevant percentage ratios purpose to Rule 14.22 of the Listing Rules.

Note 2: As transactions 5 to 8 were all entered with Bank of Jiangsu ("Bank of Jiangsu Subscriptions") and were of similar nature, the principal amount of the Bank of Jiangsu Subscriptions would be aggregated (i.e. RMB400,000,000)for the purpose of computing the relevant percentage ratios purpose to Rule 14.22 of the Listing Rules.

As the Company's total assets as at 31 December 2020 is RMB11,198,126,000, none of the structured products subscribed by the Group exceeds 5% of the Company's total assets as at 31 December 2020 (i.e. RMB559,906,300).

The Company further confirms that there was no investment held by the Company with a value of more than 5% of the Company's total assets as at 31 December 2020.

Other financial assets

Other financial assets held by the Group included equity interests in Bank of Jiangsu Co., Ltd., 廈門創豐翌致投資管理合夥企業(有限合夥) (Xiamen Tronfund Yizhi Investment Management Partnership*), 南京小木馬科技有限公司 (Nanjing Xiaomuma Technology Co., Ltd.,*) JM Digital Steel Inc., 寧波梅山保税港區啟安股權投資合夥企業(有限合夥) (Ningbo Meishan Free Trade Port Qian Equity Investment Partnership*) and 濟南財金復星惟實股權投資基金合夥企業(有限合夥) (Ji'nan Financial Fosun Weishi Equity Investment Fund Partnership (Limited Partnership)*). All of these investments were stated at their fair value as at 31 December 2020. The total fair value loss, net of tax, of RMB1,419,000 was recorded in other expenses (2019: gain of RMB4,897,000) and RMB4,840,000 (2019: gain of RMB12,480,000) was recorded in other comprehensive income during the year.

Trade and bills receivables

Trade and bills receivables decreased from RMB2,160,496,000 in 2019 to RMB2,017,167,000 in 2020, which was mainly due to persevering credit control over the receivables. During the year, loss allowance of trade and bills receivables decreased by RMB6,415,000. On average, the proportion of short-aged trade and bills receivable was higher compared to 2019.

Industry review

According to 2020 economic data released by the National Bureau of Statistics of China, China's GDP exceeded RMB100 trillion for the first time with an annual economic growth rate of 2.3%. The global economy has been hit hard by COVID-19. However, thanks to those stringent prevention and control measures against the pandemic effectively adopted in China, the economy of China achieved satisfactory recovery and recorded a positive growth. With the steady resumption of work and production for Chinese enterprises, industrial production has become more active and production and operation conditions have also been improved, thereby underpinning an economic rebound in China.

Japan, Europe and China are top three special steel-producing countries around the world. Although Japan's special steel has been enjoying a relatively high market share, its export scale has been diminishing year by year due to its increasing domestic demand. The market share of Europe's special steel was relatively stable. Due to excess production capacity and large export scale, it targeted at producing mid-end and high-end products. China is also one of the main special steel-producing countries. Although special steel accounted for a low proportion of its total steel output, its DS has been well-known for its high quality and price-performance ratio, demonstrating an increasingly important presence in the international trade structure. In recent years, following the industry trend of localisation of mould production in China, DS imports continued to decline while growth in DS exports has been maintained.

According to data released by China Customs, China's steel imports amounted to 20.23 million tons in 2020, representing a significant increase of 64.5% as compared to 2019. Most of the imported steel products have been used as low-end sheet products for construction, indicating that domestic steel enterprises have been voluntarily shifting to the production of high-end products. In recent years, the Chinese government encouraged the reduction of steel production capacity to eliminate outdated production capacity and low-end products with poor quality and to promote marketisation and legalisation in the industry. As this year marked the beginning of the 14th Five-Year Plan, local governments have put forward higher economic development goals, which will be beneficial to stimulating the demand for special steel and high-value steel products. Meanwhile, in order to cater for the rapid growth of new energy vehicles, 5G iterations and home appliance markets in China, the government has been determined to focus on the reduction of steel production capacity and improve the strength, malleability, variety and quality of steel products, making more room for growth for special steel. By introducing advanced smelting equipment, the production processes and technologies of steel mills in China have made considerable progress. Certain domestic high-end DS have met world-class quality standards, taking China's DS to a higher level.

Market review

In 2020, the domestic market price of DS saw a turnaround from the decline at the beginning of the year to an increase in the second half of the year. Although the traditional downstream demand for automobiles, home appliances and electronic products has been severely affected by the pandemic in 2020, the domestic annual output of DS has been driven by the surging demand for face mask moulds, posting a year-on-year increase of 5.9%. The average prices of DS in China fell slightly in the first half of the year due to the decline in costs, and rebounded in the second half of the year due to the rapid release of suppressed consumer demand and escalating costs.

As a direct downstream of DS, moulds are mainly used in automobiles, home appliances and electronics industries. In the second half of 2020, capitalizing on the booming automobile production and sales in China, strong recovery of domestic and overseas demand for home appliances and positive rebound in electronics, engineering and mechanical industries, the demand for moulds has continued to pick up. At the same time, postponement of resumption of work for overseas steel mills, which have been hit hard by the pandemic, accelerated the shift towards domestic products as a substitute. Leading DS enterprises offering high-end products and striving for product structure optimisation have become the most preferred new suppliers of downstream customers and entered a rapid development stage with a substantial increase in sales and profitability.

HSS act as "industrial teeth", while cutting tools remain as the most important downstream products. As the pandemic has been gradually contained since the second quarter of 2020 with continual resumption of work and production, the cutting tool industry has shown significant recovery. Therefore, the demand for high-end HSS has also been boosted. High-performance and powder metallurgy HSS have become new growing points in the industry. Compared with developed countries, the applications of high-performance HSS and powder metallurgy HSS in China are less extensive. Leveraging on the high efficiency and reliability requirements of computer numerical control cutting tools and the rapid development of metallurgical technologies, the market will thus show more room for improvement.

From a policy perspective, China is at a time when it is transforming from an old to new economic model. Since 2015, China has introduced a series of supporting policies for the development of special steel industry, such as including special steel products in the Catalogue of Key Products in New Material Industries under the 13th Five-Year Plan, and classifying HSS and DS as key developing advanced basic materials under the *Made in China 2025 Plan*. Other supporting policies for manufacturing industry have also added impetus to the high-quality development of special steel industry.

Achievements

During the year, the Group's position in the capital market has been further consolidated. On 28 December 2020, the Group announced the introduction of strategic investors. 13 investors with backgrounds of state-owned enterprises and local governments contributed an aggregate of RMB1.415 billion to subscribe for 16.65% of equity interest in 江蘇天工工具有限公司 (Jiangsu Tiangong Tools Co.,Ltd.*) ("TG Tools"), a wholly-owned subsidiary of the Company prior to the subscription. 丹陽天一企業管理合夥企業(有限合夥) (Danyang Tianyi Corporate Management Partnership (Limited Partnership)*) ("Danyang Tianyi"), a shareholding platform of certain employees of the Company, subscribed for 1% of equity interest in TG Tools at a consideration of RMB85 million.

The contributions from those 13 strategic investors, including several CICC funds which are controlled by CICC Capital Management Co., Ltd., 金石製造業轉型升級新材料基金(有限合夥) (Goldstone Manufacturing Transformation and Upgrading Advance Materials Fund (Limited Partnership)*), a state-owned enterprise which is controlled by 國家製造業轉型升級基金股份有限公司 (National Manufacturing Transformation and Upgrade Fund Co., Ltd.*), and local enterprises in Zhenjiang and Qingdao which are owned by State-Owned assets Supervision and Administration Commission, fully demonstrated their recognition of the leading position of TG Tools and their confidence in its development. In addition, pursuant to the strategic investor introduction agreement, in the event that TG Tools fails to complete its qualified listing before 31 December 2023, China Tiangong (Hong Kong) Company Limited ("TG Hong Kong") , a subsidiary of the Company, shall buy-back the equity interest held by the strategic investors at an interest rate of 4% p.a.. The Group is committed to assisting TG Tools, its core operating subsidiary, to tap into the capital market, so as to further improve the Group's valuation.

Meanwhile, as one of the key high-tech enterprises in China and a leading international manufacturer in terms of special steel output and technology, the Group, which has been listed on the Hong Kong Stock Exchange since 2007, was officially included as one of the constituent components of Hang Seng Stock Connect on 9 March 2020, marking another important milestone achieved in the capital market.

In addition, the Group also achieved fruitful results in business breakthroughs. During the year, by successfully resolving technical difficulties of powder metallurgy, the Group managed to overcome the bottleneck in powder metallurgy industry, end the international monopoly and fill the gap in the domestic market. As the only domestic manufacturer that mastered the powder metallurgy mass production technology for tools and DS, the Group has leaped forward to tap into the powder metallurgy industry.

The Group has won various industry and brand awards in 2020. TG Tools, a subsidiary of the Group, has been awarded the 2020 年江蘇省省長質量獎 (2020 Jiangsu Provincial Governor's Quality Award) and has become a benchmark enterprise for high-quality development in Jiangsu Province, reflecting the domestic market's full recognition of the Group's products, brands and leading position in the industry. In addition, the Group was included in 二零二零年度中國鋼鐵品牌榜 (2020 Steel Brand List in China) and was awarded the 2020 年中國優特鋼市場優秀品牌 (2020 Excellent Special Steel Brand in China), demonstrating its brand influence.

Outlook

Market Outlook

Domestic Industry Development

Over the past few years, China has introduced certain supporting policies for manufacturing industry, in particular advanced manufacturing industry, so as to strive for industrial modernisation, shifting from "Made in China" to "Created in China", and developing into a major manufacturing country. Furthermore, with lingering uncertainties arising from the Sino-US trade war and Entity List, domestic enterprises are committed to increasing their research and development investments to catch up with international advanced technologies and stimulate import substitution.

Following the recovery of China's economy from the pandemic, the development of high-end manufacturing industries, such as aerospace and aviation, power generation equipment and automobiles, will accelerate. The demand for upstream high-end steel materials will also continue to increase. Coupled with the rapid increase in import substitution under the pandemic and high entry barriers of the industry, the development of special steel in the mid and long run is inevitably promising. In addition, with the universal vaccination programme launched around the world, it is expected that the global economy will enter a recovery period in 2022, which will further drive the demand for high-end products including DS and HSS in China.

In 2021, the demand for DS may be boosted as consumption spending picks up. It is expected that the long-term demand growth will be stable and promising. In the past three years, domestic demand for DS has declined in stages due to the withdrawal of preferential policies for automobile purchases and saturation of 4G smartphone market. However, in 2021, given the accelerated penetration of new energy vehicles, 5G iterations and arrival of completion cycles, it is expected that domestic demand for DS will increase by 7.8% due to more consumption of automobiles, electronics and building materials. Moreover, taking into account of the long-term growth rate of domestic demand for automobiles and home appliances of 100% to 150%, the compound annual growth rate of domestic demand for DS from 2021 to 2025 may reach 3%. In view of (i) the compound annual growth rate of mould export value in China of 5% in the past decade; and (ii) DS exports from 36 enterprises only accounted for approximately 10%, DS exports in China will benefit from the expansion of overseas markets and market leaders are expecting an increase in market share.

Meanwhile, the cutting tool market will also gain growth momentum. The market share of carbide cutting tools with better comprehensive performance is increasing and will further increase as the manufacturing industry in China continues to upgrade. In 2019, due to the Sino-US trade war and on-going downturn in the automotive industry, the consumption of cutting tools declined. However, it is preliminary estimated that the consumption scale of cutting tools in 2020 reached RMB40.2 billion as industrial production in China continues to improve.

It is noteworthy that carbon neutrality is one of the key focuses of the 2021 National People's Congress and Chinese People's Political Consultative Conference and the 14th Five-Year Plan. Certain investment institutions believe that carbon neutrality will bring greater investment opportunities and more room for the growth of the steel industry in China. The carbon emissions from steel industry currently accounted for 18% of total emissions. It is imperative to reduce crude steel output and adjust production structure. Without the pressures arising from catching up with production capacity, the steel industry will aggressively focus on value-added and high-end products innovation.

Export Outlook

Clouded by the Novel Coronavirus (COVID-19) pandemic worldwide in 2020, the operating environment for domestic and overseas markets has been severely affected. However, according to the current progress of vaccine development and vaccinations and with the pandemic under control, various countries will put forward measures for stimulating the economy, including launching recovery plans for infrastructure and manufacturing. Based on the current pandemic situation and the recovery of global demand, if the global pandemic situation is effectively controlled in 2021, it is expected that the global steel demand and exports will be increasing steadily in 2021. It is also expected that the growth of DS exports for the same period will reach 20% due to the recovery of overseas demand.

Operating Strategy

The production of special steel has been dominated by and high-end market has been monopolised by developed countries for a long time. As a result, the output and trading volume of special steel from developed countries accounted for approximately 60% of global output and approximately 80% of global trading volume respectively. Leading the industry with its professional equipment, technologies and management strengths, the Group has been focusing on research and development and cost control over the years, so as to meet the domestic market demand, better leverage the economies of scale and strive for a larger share in the international market.

In terms of production technology, the Group is well-known for its leading technology. In order to speed up the turnover efficiency in the production process, the Group tried to use new technology in the production process. Through innovations in the forging and rolling processes, the Group managed to speed up the process flow, improve turnover efficiency, reduce energy consumption and reduce costs. By adopting new technology, the Group also removed certain specific conditions and restrictions of traditional technology, effectively tackled the problem of energy waste and shortened capital occupation time.

The Group is also committed to strictly controlling the costs of the manufacturing process and implementing comprehensive cost control measures. As a result, the Group imported used alloyed steel from overseas every year and used its own technology for scrap recycling and processing, so as to reduce costs and increase efficiency. By maintaining stable raw material supply, the Group's production and operation efficiency will be enhanced.

Overseas Expansion

In recent years, the Group has been committed to adopting its globalisation strategies to further tap into overseas markets and cope with uncertainties arising from the Sino-US trade war. In 2019, the Group resolved to establish a new plant in Rojana Rayong Pluak Daeng Industrial Park, Rayong, Thailand. Located in the proximity of 50 kilometers to Laem Chabang Port, the Park is surrounded by auto parts manufacturers and logistics suppliers. Leveraging on its strategic geographical location, the Park will become a new base for automotive and export processing industry in Thailand.

Completed in September 2020, the plant officially commenced its trial production in the first quarter of 2021. As the Group's first overseas high-automated cutting tool plant with an annual production capacity of 48 million pieces and fully automatic production lines, the plant will be able to achieve higher production efficiency and flexible expansion.

The major cutting tool products produced by the plant are downstream power tools. It is anticipated that an increase in market share of cordless power tools will drive the global demand for power tools in the future. As of 2019, there was a market gap of nearly US$12.2 billion in the global power tool market, in particular emerging markets in Asia and Latin America. By establishing a plant in Thailand, the Group will be able to meet the demand for precision tools in North America and Southeast Asia, which is crucial for the Group to increase its share and influence in the international cutting tool market.

Product Development Strategy

Powder Metallurgy Industry

DS and HSS produced by powder metallurgy is identical to the traditional products in terms of form. However, the price, performance and profitability of those two products have inherent differences. DS and HSS produced by powder metallurgy has higher strength and malleability and longer usable life. With its direct processing feature, steel and man-hours can be saved during the production process.

The Group has been preparing to build the first industrialised powder metallurgy production line in China since March 2018 and the production line officially commenced its production in November 2019. Accordingly, the Group successfully tapped into the powder metallurgy industry. As a high-end market product, the price of DS and HSS produced by powder metallurgy is relatively higher than other similar products. Powder metallurgy has been monopolised by overseas enterprises for a long time due to technical reasons. With the newly established powder metallurgy production line, the Group has officially tapped into the high-end market by offering more high-end products. It is expected that the Group's powder metallurgy business will gradually step up its production in 2021 and become a new growing point for the Group in the future.

In early 2021, the Group announced that it has entered into a powder metallurgy sole distribution agreement with a leading supplier of special steel products in Europe (the "Business Partner"), pursuant to which the Group shall exclusively supply powder metallurgy steel products in various dimensions and the Business Partner shall have a right of sale of such powder metallurgy steel products in the European market. Such agreement is a recognition of the Group's powder metallurgy products' quality and competitiveness in the European market and is beneficial to improving the profitability of the Group's products. It is believed that the Group will gain more recognition and market share in the future. In addition, the Group has also recently entered into a contract with the supplier of core equipment for the phase 2 powder metallurgy project, marking the official start of construction work for the phase 2 project and laying a solid foundation for the Group's future expansion.

Carbide Cutting Tools Industry

By actively striving for product upgrades and gradually exiting from the low-end market, the Group has been focusing on the high-end carbide cutting tools market and offering more value-added cutting tools products with higher alloy content in recent years. Such strategy was in line with the increasing demand for high-end carbide cutting tools in China.

Marketing Strategy

Capitalizing on the high quality and price-performance ratio, the Group's DS and HSS have successfully gained the trust of domestic customers during import substitution. The Group will continue to consolidate and strengthen its cooperative relationship with domestic customers. At the same time, the Group is making full preparations for the resumption of its export business in expectation of an export rebound.

The Group has invested considerable resources in its online sales channels in recent years. The Group's products are also being sold on various large e-commerce platforms around the world, such as Alibaba, Amazon, eBay, JD and Tmall, so as to further boost the sales of cutting tools. The effectiveness of e-commerce sales was particularly significant during the pandemic when overseas online sales recorded a satisfactory growth of approximately 329.5% year-on-year.

Information Technology

To cope with the Group's expansion, internationalisation, product series expansion, precise and professional production processes and diversified sales channels, the Group invested over RMB10 million to build the "Digital Tiangong" digital information system which covers all businesses of the Group. It completes digital development in five areas: from sales to payment collection, purchases to payment, planning to resources, manufacturing to costs, and order to delivery. The Group has successfully entered into a contract for the project and the development of the system is divided into four stages over the next two to three years. This system will effectively improve the online procurement performance, enhance the synergy of the industrial chain, boost the Group's competitiveness in the international market, and make the best preparation for the Group's transformation to an amoeba management model.

Our mission

The Group has always strived for innovation and advancements in competitiveness to consolidate its leading market position. The Group re-affirms its mission to maximise shareholder value, uphold high corporate governance standards and lead the industry to move forward.

Forward looking statements

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

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

Liquidity and financial resources

As at 31 December 2020, the Group's current assets included cash and cash equivalents of RMB827,246,000, inventories of RMB1,688,371,000, trade and other receivables of RMB2,481,866,000, pledged deposits of RMB384,700,000 and time deposits of RMB350,000,000. As at 31 December 2020, the interest-bearing borrowings of the Group were RMB3,365,819,000 (2019: RMB3,251,733,000), RMB2,773,982,000 of which was repayable within one year and RMB591,837,000 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 2020, was 50.0% (2019: 59.1%).

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 2020, borrowings of RMB2,046,800,000 were in RMB, USD90,409,032 were in USD, EUR75,226,245 were in EUR and HKD149,017,583 were in HKD. The borrowings of the Group were subject to interest payable at rates ranging from 0.75% to 5.66% 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 RMB1,307,468,000 (2019: RMB398,666,000). The increase was mainly attributable to: (i) improved profitability of the Group's products in 2020; and (ii) higher proportion of trade receivables closing to the year end in 2019, which partially affected the operating cashflow in last year.

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 2020 was 156 days (2019: 156 days). The complexity of the production process of special steel limits the minimal turnover days of inventory of the Group. The Group maintained effective and efficient control over the production cycle and optimised the turnover days of inventory as usual during the year.

The Group's turnover days of trade receivables for 2020 was 146 days (2019: 141 days) while the turnover days of trade payables for 2020 was 127 days (2019: 131 days).

Accordingly, the Group's cash conversion cycle for 2020 was 175 days (2019: 166 days). The turnover days figures of the Group were quite stable, reflecting a tight control over the purchase, production and sales operations by the management. The management will continue to monitor closely the operations in view of the changing business environment.

It should be noted that the calculation of the aforesaid indexes may not be consistent with those measurement indexes published by other issuers in the steel industry given the Group engages in not only the manufacturing of DS and HSS but also cutting tools and Titanium and also engages in trading activities.

Use of proceeds from fund raising exercise

The relevant business registration change of the subscription of new shares in TG Tools was only completed on 4 March 2021. As set out in announcement of the Company dated 28 December 2020, it is intended that the proceeds from the subscription (i.e. RMB1,415,000,000) will be applied towards the repayment of certain bank loans taken out by TG Tools and its direct and indirect subsidiaries from time to time ("TG Tools Group"), the replenishment of TG Tools Group's operating cash flow and the furtherance of TG Tools Group's high speed steel and die steel businesses.

Capital expenditure and capital commitments

For 2020, the Group's net increase in property, plant and equipment amounted to RMB269,658,000, 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 2020, capital commitments were RMB544,430,000 (2019: RMB350,787,000), of which RMB69,910,000 (2019: RMB92,792,000) were contracted for and RMB474,520,000 (2019: RMB257,995,000) were authorised but not contracted for. The majority of the capital commitments related to investment in the production line of powder metallurgy, forging and smelting production line 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 68.9%. 31.1% 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 2020, the Group pledged certain bank deposits amounting to RMB384,700,000 (2019: RMB610,400,000) and certain trade receivables amounting to RMB160,835,000 (2019: RMB107,037,000). The decrease in pledged bank deposits was mainly due to the decrease in the outstanding balance of bank acceptance bills.

Material acquisition and disposal

Acquisition of the entire equity interest in Weijian Tools by TG Tools

On 13 November 2020, TG Tools (a wholly-owned subsidiary of the Company, as purchaser) entered into an equity interest transfer agreement, pursuant to which TG Tools would acquire the entire equity interest of 江蘇偉建工具科技有限公司 (Jiangsu Weijian Tools Technology Co., Ltd.*) ("Weijian Tools") from Smart Rich Industrial Limited (駿發實業有限公司) and Dangyang City Qianjia Investment Partnership* (丹陽市乾嘉投資合夥企業) ,at the total consideration of RMB108,695,500 (equivalent to approximately HK$127,151,547). This transaction was completed on 31 December 2020. For further details, please refer to the Company's announcement dated 13 November 2020.

Deemed disposal of equity interest in TG Tools

On 28 December 2020, (i) TG Tools, 江蘇天工新材有限公司 (Jiangsu Tiangong New Materials Co. Ltd*) ("TG New Materials"), TG Hong Kong, Other TG Parties (Note 1) and 13 strategic investors (Note 2) ("Investors") entered into an investment agreement, pursuant to which the Investors will subscribe for an aggregate registered capital of RMB434,228,731, representing approximately 16.65% of the equity interest in TG Tools (as enlarged by the subscriptions under the investment agreement and the subscription agreement) at the consideration of RMB1,415,000,000 (equivalent to approximately HK$1,681,740,000); (ii) TG Tools and Danyang Tianyi, being a shareholding platform of certain employees of TG Tools, entered into a subscription agreement, pursuant to which Danyang Tiangyi will subscribe for registered capital of RMB26,084,411, representing approximately 1% of the enlarged equity interest in TG Tools (as enlarged by the subscriptions under the investment agreement and the subscription agreement) at the consideration of RMB85,000,000 (equivalent to approximately HK$101,023,000). In addition, pursuant to the investment agreement, strategic investor introduction agreement, in the event that TG Tools fails to complete its qualified listing before 31 December 2023, TG Hong Kong, a subsidiary of the Company, shall buyback the equity interest held by the Investors at an interest rate of 4% p.a.. The relevant business registration change of the transaction was completed on 4 March 2021. As at the date of this report, the Company is holding approximately 82.35% equity interest in TG Tools via TG Hong Kong and TG New Materials. For further details, please refer to the Company's announcement dated on 28 December 2020.

Note 1: Other TG Parties means the Company, 江蘇天工精密工具有限公司 (Jiangsu Tiangong Precision Tools Company Limited*), 天工愛和特鋼有限公司 (Tiangong Aihe Company Limited*), Weijian Tools, 句容市天工新材料科技有限公司 (Jurong Tiangong New Materials Technology Company Limited*) and 天工發展(香港)有限公司 (Tiangong Development (Hong Kong) Company Limited).

Note 2: For details on the Investors, please refer to definition of "Investors" in the Company's announcement dated on 28 December 2020.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries and associates of the Group during the reporting period.

Employees' remuneration and training

As at 31 December 2020, the Group employed 3,008 employees (2019: 2,817 employees). Total staff costs during the year amounted to RMB267,114,000 (2019: RMB280,094,000). The decrease was mainly due to the one-off social insurance exemption policy implemented by the local government during the outbreak of COVID-19. 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. In order to minimise the credit risk in relation to trade receivables, the Directors have delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that appropriate follow-up actions are taken to recover overdue debts. The Group has also purchased insurances relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. Details of the above main risks and measures for risk reduction are set out in note 35 to the financial statements.

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

Risks and uncertainties arising from rare metal price volatility

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

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

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

In compliance with laws and regulations

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

As at 31 December 2020 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.

1 About the Environmental, Social and Governance Report

1.1 Reporting Guideline

This is the fifth 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" or "We"). The ESG Report mainly introduces the Group's environmental, social and governance ("ESG") performance in 2020.

The Company prepared the ESG Report in accordance with the 2016 edition of the *Environmental, Social and Governance Reporting Guide* (the "ESG Guide") under Appendix 27 to the *Rules Governing the Listing of Securities* issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The ESG Report shall be read in conjunction with the section "Corporate Governance Report" of *Tiangong International Company Limited Annual Report 2020* (the "Annual Report 2020") in order to have a comprehensive overview of the Group's ESG performance.

1.2 Reporting Scope

Unless otherwise specified, the organizational 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. The equipment installation of the Group's automated cutting tool factory in Thailand was completed at the end of 2020. The factory, which has not been put into operation, is therefore not yet included in the reporting scope of the ESG Report.

Unless otherwise specified, the reporting period of the ESG Report is consistent with that stated in the Annual Report 2020, which is from 1 January 2020 to 31 December 2020 (the "reporting period").

1.3 Report Statement

The board of directors of the Company (the "Board") has overall responsibility for the Company's ESG strategy and reporting. The Board is responsible for assessing and determining ESG risks within the Group's operating scope and ensures the establishment of an appropriate and effective ESG risk management and internal control system. The Group's ESG approaches, strategies and relevant materiality will be disclosed in the following sections of the ESG Report.

All information disclosed in the ESG Report is sourced from the Group's documents and statistical reports. The ESG Report is compliant with all the "comply or explain" provisions set out in the ESG Guide and prepared in accordance with the reporting principles of the ESG Guide. The reporting principles the Company applied in the preparation of the ESG Report are as follows:

Materiality

The Group identified the material issues that are relevant to the Group through materiality assessment. The materiality assessment included processes such as inviting key stakeholders to rank the materiality of ESG issues, verification of material issues, etc. Please refer to the section "Materiality Assessment" of the ESG Report for the process and result of the materiality assessment.

Quantitative

To comprehensively assess the Group's ESG performance during the reporting period, the Group disclosed measurable key performance indicators (KPIs), which are set out in the ESG Guide and applicable to the Group, and specified the sources of standards, methods, assumptions and calculations used by the measurable KPIs, including the sources of the conversion factors.

Consistency

The ESG Report is prepared with the same methodologies as the previous reporting period, which enables readers to make meaningful comparisons of the ESG information in the ESG Report.

Balance

This reporting principle is applied in the following sections of the ESG Report.

1.4 Form of Report Publication

The ESG Report is published in two languages — Traditional Chinese and English. In the event of discrepancies between the Traditional Chinese version and English version, the Traditional Chinese version shall prevail. You could access the Traditional Chinese and English PDF versions of the ESG Report via the Company's website http://www.tggj.cn/ and the Stock Exchange's HKEX news website https://www.hkexnews.hk/index_c.htm.

1.5 Feedback on the ESG Report

Should you have any comments or questions about the Group's ESG work, you are welcome to contact us by email.

E-mail: tiangong@biznetvigator.com

2 Corporate Governance Integrated with ESG

To further integrate ESG factors and management into corporate governance, the Group officially established the ESG Working Group during the reporting period. The ESG Working Group, which is led by the head of the Office Administration, the Financial Controller and the head of the Securities Investment Department, is composed of persons in charge of each ESG-related department of the Group. The primary responsibilities of the ESG Working Group are to assist the Board in coordinating and overseeing the implementation of the Group's ESG policy, formulate implementation plans of ESG strategies and report significant ESG matters to the Board. The Group will continue to improve the ESG governance structure and enhance employees' understanding of ESG in order to better prepare for future ESG challenges and opportunities.

During the reporting period, the Group engaged an external consulting firm to conduct an ESG training for the Board to enhance its understanding of ESG matters. The training included ESG development trends, ESG risks and opportunities, green financial development, the Board's roles required by the Stock Exchange, etc. Furthermore, we also organised an ESG training for members of the ESG Working Group for them to have a better understanding of the importance of ESG management and their roles in ESG matters.

3 Stakeholder Engagement

3.1 Communication Channels

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	Labour contracts Employee conferences Employee activities Employees' Representatives Conference	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 ➢ Collecting and reviewing employees' proposals
Suppliers and Other Business Partners	Being fair and just Win-win cooperation	Contracts and agreements Supplier assessments Communication meetings	Annual/irregular	➢ 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

3.2 Materiality Assessment

In order to identify the material ESG issues of the Group, the Group regularly conducts materiality assessment and continuously improves the mechanism and methodology of conducting materiality assessment. During the reporting period, the Group conducted materiality assessment through survey for the first time. We also invited external stakeholders to participate in the materiality assessment for the first time in order to fully understand stakeholders' ESG concerns.

The Group identified material ESG issues through the following five steps:

1. *Identify Key Stakeholders*

   Taking into account the two dimensions of "the Group's influence on stakeholders" and "the influence of stakeholders on the Group", the Group identified the following key stakeholders and invited them to participate in the materiality assessment 2020.

   - ✔ The Board
   - ✔ The Government
   - ✔ The Management
   - ✔ Shareholders and Investors
   - ✔ Employees
   - ✔ Customers
   - ✔ Suppliers
   - ✔ Business Partners

2. *Identify Relevant ESG Issues*

   The Group identified ESG issues that are relevant to the Group with reference to the ESG Guide and ESG trends of the steel industry. We identified a total of ten environmental ESG issues and nineteen social ESG issues.

3. *Conduct Survey*

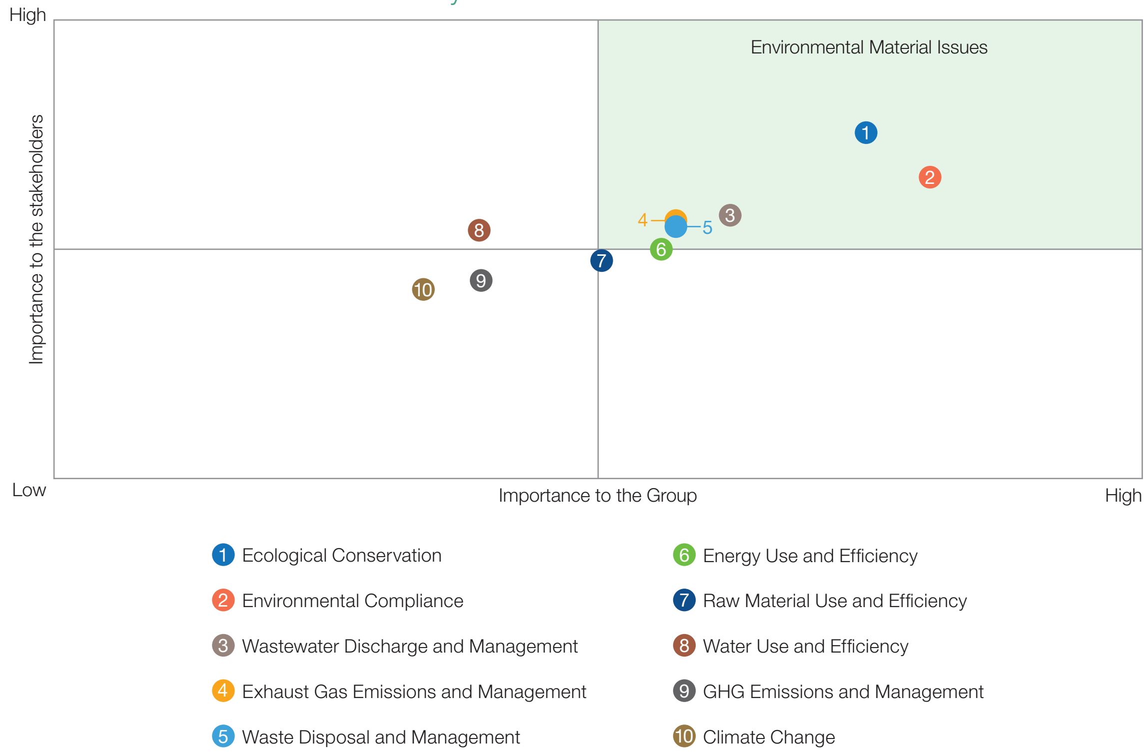
   The Group invited key stakeholders to rank the ten environmental ESG issues and nineteen social ESG issues through a survey. External stakeholders (the government, shareholders and investors, customers, employees, business partners and suppliers) ranked ESG issues from the dimension of "Importance to Stakeholders" while internal stakeholders (the Board and the management) ranked ESG issues from the dimension of "Importance to the Group".

4. *Analyse the Survey Result*
   The Group analysed the survey result, created materiality matrices and identified issues with high scores on both "Importance to Stakeholders" and "Importance to the Group" as material issues.

5. *Verify the Material Issues*
   The Board reviewed the survey result and verified the material issues.

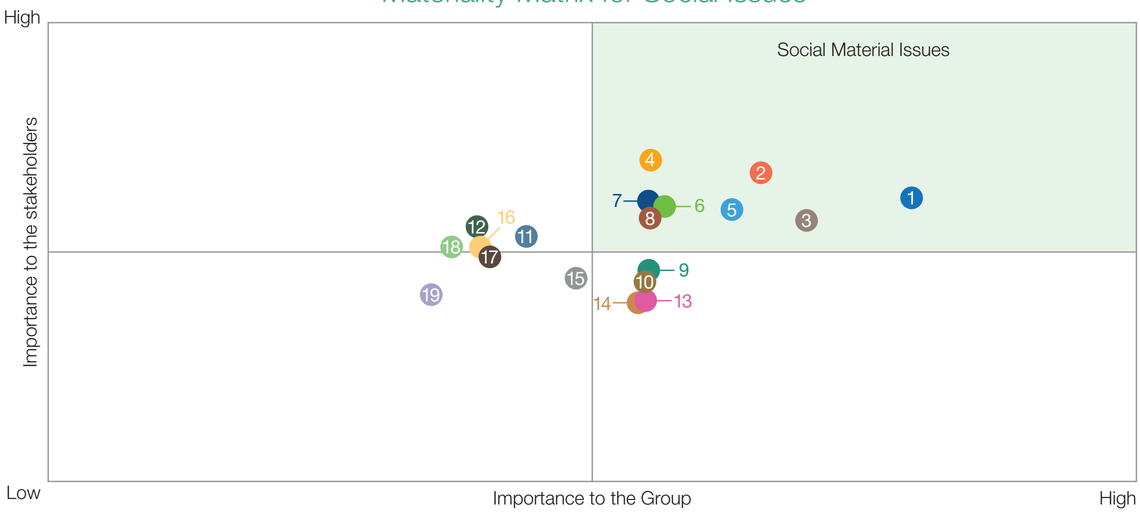
The Group's materiality matrix for the environment issues is as below:

Materiality Matrix for Environmental Issues



The Group's materiality matrix for the social issues is as below:

Materiality Matrix for Social Issues



1. Health and Safety of Employees
2. Social Compliance
3. Scientific Reseach and Innovation
4. Customer Satisfaction
5. Quality Control and Management of Product and Services
6. Protection of Intellectual Property Rights
7. Labour Standards
8. Health and Safety of Product and Services
9. Anti-corruption
10. Environmental Risks of the Supply Chain
11. Social Risks of the Supply Chain
12. Community Investment
13. Sustainable Procurement
14. Development and Training of Employees
15. Employment
16. Attention to the Development Trend of the Downstream Market's Demnad for Steel Types
17. Advertisement of Product and Services
18. Customer Protection and Privacy Security
19. Management of Engaging Suppliers

The Group identified a total of six environmental material issues and eight social material issues in this materiality assessment. We will highlight the Group's management strategies and performance in relation to the following material issues in each chapter of the ESG report to address the concerns of our key stakeholders.

Material Issues* (Materiality from the highest to the lowest)	
Environmental Aspect	**Social Aspect**
1. Ecological Conservation	1. Health and Safety of Employees
2. Environmental Compliance	2. Social Compliance
3. Wastewater Discharge and Management	3. Scientific Research and Innovation
4. Exhaust Gas Emission and Management	4. Customer Satisfaction
5. Waste Disposal and Management	5. Quality Control and Management of Product and Service
6. Energy Use and Efficiency	6. Protection of Intellectual Property Rights
	7. Labour Standards
	8. Health and Safety of Product and Service

* The material issues stated in the table above are identified through materiality assessment. Please refer to this section for the process of materiality assessment.

4 Environmental Management

The Group attaches great importance to environmental compliance and actively reduces the negative impact of our operations on the environment, for which we have formulated several internal environmental policies. In order to ensure the effective implementation of the relevant policies, the Group implements the *Environmental Protection Responsibility System*, which specifies the environmental responsibilities of departments and personnel. The Chief Executive Officer of the Group, who is the principal person in charge for environmental protection, assumes overall responsibility for the environmental protection work of the Group.

In addition, the Group has established the Safety and Environmental Protection Department ("SEP Department"). The SEP Department is responsible for the daily supervision and management of environmental protection work, including designing, improving and implementing environmental management systems and work plans. The leaders of the SEP Department have set up a Leading Group for Environmental Governance to advance environmental protection work with stringent standards, conduct comprehensive and thorough inspections of pollution sources, and ensure compliance with national and regional emission requirements. The Leading Group arranges monthly meeting to summarise the focus of environmental protection work of the current and the upcoming month in order to ensure the Group's environmental compliance and enhance environmental governance.

To further enhance our environmental management performance, we have set the following six targets:

Environmental Management Targets	
0 Significant environmental pollution incident	1% Annual energy consumption reduction per product
90% Recycling rate of wastewater	98% Normal operating rate of equipment
100% Handling rate of solid waste	100% Compliance of noise level and pollutant emissions from factories

4.1 Emission Management

The Group's major types of emission are wastewater, exhaust gases, greenhouse gases ("GHG"), hazardous and non-hazardous wastes. We have formulated the *Environmental Protection Management System*, the *Environmental Monitoring Management System* and other management systems to ensure that emissions generated during operation are in compliance with national emission standards. In addition, we have a real-time monitoring system to measure the discharge statistics of wastewater and emission levels of exhaust gases, ensuring that the emissions meet the standards.

Wastewater

The Group's wastewater mainly comes from the discharge of cooling fluid and recirculating water during production and processing. In order to regulate the discharge of industrial wastewater, the Group has formulated the *Management Measures for Prevention and Control of Water Pollution*. The Group has a wastewater treatment plant for centralisation of treatment of all wastewater and ensures that wastewater meets discharge standards before discharge. The SEP Department is responsible for monitoring the pollutants in the wastewater discharged. If wastewater discharge was found to be abnormal or exceeding the standard, the SEP Department will promptly identify the cause and take corrective measures until the wastewater discharge meets the standard. The SEP Department will also report abnormality cases to senior management and modify preventive measures to avoid future recurrence. In addition, we have set up stormwater drains to divert stormwater and wastewater and prohibited the discharge of wastewater into stormwater drains. In order to prevent wastewater leakage and the associated environmental impact, we regularly inspect wastewater drainage and treatment facilities.

In order to reduce wastewater discharge, the Group has established a water recycling system that enables reuse of treated wastewater for cooling of production facilities. During the reporting period, the total water consumption of the Group was 291,275.00 tonnes. The Group recycled approximately 157,374.00 tonnes of water.

Exhaust Gases and GHG

The Group's exhaust gas emissions are mainly derived from the combustion of natural gas. To reduce exhaust gas emissions, the Group replaced coal with natural gas to provide energy for boilers and reheating furnaces. Besides, we have also transformed and improved reheating furnaces and soaking furnaces and installed efficient treatment equipment for exhaust gases to ensure that emissions meet the national and the steel-industry specified emission standards. Furthermore, dust and oily fume were also generated from the operation of the Group. To reduce emissions of these pollutants, our factories are equipped with highly efficient dust treatment devices and oily fume collection devices. The Equipment Maintenance Department of the Group's factories regularly inspects and maintains the equipment to ensure that it is operating properly to avoid additional exhaust gas emissions due to equipment failure or low operating rate.

The Group's GHG emissions are mainly derived from natural gas combustion and electricity consumption. To further promote the reduction of GHG emissions, we have developed the *Carbon Emissions Management System*. The Group's major GHG emission reduction projects include improving energy efficiency and adopting new and renewable energy sources. The *Carbon Emissions Management System* clearly lists out the responsibilities of the Group's Energy Management Leading Group, the implementation workflow of GHG emission reduction projects, the inspection and assessment of carbon emissions and other requirements. The responsibilities of the Energy Management Leading Group include the development and modification of management measures and working procedures for GHG emission reduction projects, the development and implementation of such projects, and the collection of emission reductions statistics for such projects and so on. In order to ensure effective reduction in GHG emissions of the Group, we have incorporated carbon emissions inspection and assessment into the performance appraisal system. The Energy Management Leading Group is responsible for evaluating the performance of production units related to GHG emission reduction projects.

The implementation of the above measures has helped us reduce GHG emissions. During the reporting period, the Group's GHG emission intensity decreased by approximately 6%, from 2.51 tonnes CO_2e/tonne of products in 2019 to 2.35 tonnes CO_2e/tonne of products in 2020.

Hazardous and Non-hazardous Wastes

The Group has formulated the *Waste Management Code*, which defines and classifies the wastes generated by the Group and regulates the management and disposal of the wastes. The Group strictly enforces this code to strengthen waste management and prevent environmental pollution caused by improper waste disposal.

The Group's hazardous waste is mainly consisted of acidic and alkaline wastes, dust, waste oil, waste batteries and waste lubricating oil generated during the production process. The Group's *Hazardous Waste Management System* regulates hazardous waste management, including management responsibilities, management plans, storage classification and transportation, accident handling, etc. The Group's SEP Department is responsible for the daily management of hazardous waste, including supervising waste management condition in various production units, improving environmental monitoring systems, monitoring and random checking the disposal of various types of waste. We label hazardous wastes with identification labels and warning signs, then classify and transport them to the specialised storage site for hazardous waste, where they will be handled by a qualified third party and the disposal amount of hazardous waste is recorded. To reduce the disposal amount of waste lubricating oil, the Group reuses waste lubricating oil treated by the waste lubricating oil treatment plant. During the reporting period, the Group recycled and reused 82.10 tonnes of waste lubricating oil.

The Group's non-hazardous waste is mainly consisted of melting slag, domestic waste, food waste and construction waste generated during the production process. We classify non-hazardous recyclables, store them in a warehouse, and record information such as quantities and storage dates. The recyclables are then collected and recycled by waste recyclers. During the reporting period, the Group recycled 125.24 tonnes of wastepaper. Non-recyclable and non-hazardous wastes are transported by external personnel to nearby landfills.

4.2 Efficiency of Resource Use

The Group adheres to the principle of "Reduce, Reuse, Recycling" to improve the efficiency of resource use, minimising the negative impact caused by our operation on the environment.

Efficiency of Water and Electricity Consumption

The Group's water sources are mainly municipal water supplies and wells, hence we have no difficulty in sourcing water. In order to improve the efficiency of water and electricity consumption of the Group and prevent wastage of water and electricity, the Group has formulated the *Water-saving and Electricity-saving Management System*, the *Electricity-saving Management Regulations* and other management systems. We consolidate the data of energy consumption, required each department to reasonably consume electricity and save electricity, and carefully analysed the electricity consumption of each electricity consumption unit. Furthermore, we conduct energy assessments on the factories and reward departments that achieve significant energy-saving results.

Water Saving	Energy Saving
➢ Regularly inspect water pipes and facilities and tackle with water leakage of water pipes and taps in a timely manner ➢ Gradually adopt water-saving equipment, such as installation of toilets with flush sensor and sensor taps ➢ Enhance education to raise employees' awareness of water-saving ➢ Assess the departments with substantial water consumption and, if necessary, water meters shall be installed	➢ Turn off production equipment in a timely manner to avoid idle equipment ➢ Equip appropriate types of lamps with different power rating according to the lighting requirements of different areas ➢ Gradually replace with energy-saving lamps ➢ Night shift employees increase the frequency of lighting inspections and turn off unnecessary lighting ➢ Enhance education to raise employees' awareness of energy-saving ➢ Encourage employees to turn off idle computers, air conditioners, lamps and other electrical equipment

During the reporting period, the Group had a slight increase in the water and electricity consumption for non-production purpose due to an increase in water and electricity consumption for the pilot production and research and development phases of the production line of powder metallurgy. The Group reduced the consumption of purchased electricity by using solar energy. During the reporting period, the Group's solar energy consumption amounted to 7,369,640 kilowatt hours. To enhance water efficiency, the Group set a monthly water consumption target of 18,800 tonnes for 2020, which excluded the water consumption for projects under construction or pilot production. During the reporting period, the Group's actual average monthly water consumption was 18,300 tonnes, which was 500 tonnes less than the target.

Efficiency of Raw Material Consumption

The Group's major raw materials for production are steel, alloys, scrap steel and steel grinding swarf. In order to improve the efficiency of raw material consumption, we recycle and reuse steel grinding swarf in the production process. During the reporting period, the Group recycled and reused 51,057.62 tonnes of steel grinding swarf.

5 Quality of Tiangong

The Group adheres to the spirit of craftsman, meticulously manufactures steel products, continuously improves the level of quality management, and provides customers with high-quality products and services. During the reporting period, the Group was awarded the 2020 Jiangsu Provincial Governor Quality Award. The quality of our products was highly recognised by the government of Jiangsu province. In the future, we will continue to improve product quality management, leading the industry to high-quality development.

2020 Jiangsu Provincial Governor Quality Award

5.1 Quality Control

To ensure high-quality products, we implement quality management throughout the life cycle of our products. We have developed and implemented product quality control systems in accordance with GB/T 19001-2016/ISO9001:2015 *Quality management system-Requirements*. We also carry out measurement management of product quality and other aspects in accordance with GB/T19022-2003/ISO10012:2003 *Measurement management systems-Requirements for measurement processes and measuring equipment* in order to guarantee product quality.

The Group has developed various operating procedures and product quality control manuals for various products, including the *Management Procedure for New Product Development*, the *Control Procedure for Self-Made Unqualified Product*, the *Enterprise Measurement Management* Regulation and so on. We meticulously control the product quality at each manufacturing stage, from raw material inspection to product export. To ensure that product quality meets the standards, we select samples from raw materials for chemical testing, perform rigorous physical and chemical tests on semi-finished products at each manufacturing stage, and conduct a series of product quality tests on finished products to ensure that they do not pose any risk to health and safety of consumers. We will label products that pass the product quality tests and ensure that the content of the labels is correct. All products are required to obtain a quality assurance certificate before they are officially launched on the market.

If customers find any unqualified products after receiving the products, they may contact the Sales Department of the Group. Sales Department shall then discuss with the customers about the handling of the unqualified product in accordance with the *Control Procedure for Self-Made Unqualified Product*. The customers may choose to exchange or return the products. The Group will take appropriate measures to resolve the problem of unqualified products in a timely manner.

5.2 Customer Rights

The Group is committed to safeguarding the rights and interests of customers in order to win their support and trust and to maintain a long-standing partnership. In terms of product services, the Group has set up a product authenticity checking system for customers to check the authenticity of the products through QR codes, digital security query system and product serial number query system. In terms of customer privacy, we comply with laws and regulations related to privacy protection to protect our clients' privacy rights. The Group has set up access rights to sensitive customer information. Only employees in the Sales and Finance Departments have access to customer privacy. We require employees to handle customer data cautiously to prevent leakage of customer data. If an employee is found to have mishandled customer information or disclosed customers' privacy, the Group will take disciplinary action against the employee in accordance with established procedures. In terms of advertising, we comply with laws and regulations related to advertising to ensure that our advertisements are expressed in a true, lawful and healthy manner. Our advertisements do not contain false or misleading content.

Our customers' valuable opinion is useful for us to continuously improve the quality of our products, therefore we send customer satisfaction survey to key customers by emails and invite them to provide valuable feedback each year. The 2020 customer satisfaction survey report revealed that customers were very satisfied with the quality of the Group's products and services. The average customer satisfaction score for 2020 reached 94.44, an increase of 1.1% over 2019.

If customers are dissatisfied with the Group's products and services, they can make complaints through hotline, email, in-person visits, etc. The Group handles all customer complaints in accordance with *After-Sales Service Management System* in a serious manner and provide effective feedback to our customers in a timely manner. Upon receipt of a customer complaint, we will record the complaint, investigate the case and analyse the cause of the problem. We will formulate appropriate handling plans for different types of complaints and will continue to follow up the complaints until they are properly resolved. Besides, our sales teams have regular meetings with customers to understand their opinions and suggestions on the Group's products and services.

5.3 Leading with Innovation

The Group believes that technological innovation can effectively enhance corporate competitiveness, therefore we keep developing new products and technologies that are in demand in the market. In 2019, the Group built the first production line of powder metallurgy for tool and mold steel in China, breaking the international monopoly and becoming a leader in research and development and mass production of new materials in China's high-end manufacturing industry. The production line of powder metallurgy will increase the market competitiveness of the Group in the international high-end product market, and speeding up the production process by gradually achieving the transformation from subtractive manufacturing to additive manufacturing (such as 3D printing, etc.). Moreover, the Group built the first overseas highly automated cutting tool factory in Thailand during the reporting period to effectively increase production efficiency.

We encourage our employees to be innovative to accelerate new product development and technological innovation in production process. During the reporting period, the Group held the 2020 Technological Innovation Honouring Ceremony, presenting awards to individual employees and teams who had extraordinary performance in technological innovation. At the ceremony, the Group also summarised the achievements and areas for improvement in technological innovation during the reporting period and introduced the work plan for technological innovation in 2021.

2020 Technological Innovation Honouring Ceremony

In order to effectively promote the Group's innovation culture and protect our research and development achievements, the Group has established the *Intellectual Property Management System* to regulate the management of intellectual property rights. The document sets out the types of intellectual property rights of the Group, the main duties of the Intellectual Property Management Department ("IPM Department"), the incentives for technology innovators, and the signing of confidentiality agreements. The Group's IPM Department is responsible for the management of intellectual property rights in accordance with the *Intellectual Property Management System*. Its main duties include the formulation of various regulations on the management of intellectual property rights, the establishment of intellectual property rights file management, the filing of patent applications on behalf of the Group, and the handling of intellectual property rights disputes and litigation of the Group. To protect the Group's technological and commercial confidentiality, we sign confidentiality agreements, which include provisions related to the protection of the Group's intellectual property rights, with our employees and partners. If the intellectual property rights of the Group have been infringed, we will hold the relevant parties accountable for the infringement and, if necessary, resolve the issues by taking legal actions.

6 Safety First

We attach great importance to the health and safety of every employee and regard "Safety First and Prevention-oriented" as the Group's policy of safety production. In order to achieve the goal of zero casualties, the Group has developed a sound safety production management system. The *Occupational Health and Safety Management System* sets out safety management codes for the use of electricity, use of liquefied gas, use of electrical welding, work-at-height, mechanical safety operation, and disposal of flammable, explosive and hazardous chemicals. These codes enable employees to clearly understand the rules they have to follow when performing their duties and raise their safety awareness to prevent casualties.

6.1 Responsibility of Safety Production

In order to ensure the effective implementation of the policies related to safety production, the Group has implemented the *Liability System for Safety Production*, which clearly stipulates the safety production responsibilities of leaders, departments, engineering technicians and machine operators at all ranks. The Head of the Group's SEP Department, under the leadership of the Chief Executive Officer, is responsible for the management of safety production of the Group, including supervising the implementation of safety production rules and regulations and safety operating procedures of various departments and providing technical guidance to the safety officer of each department. Each of the Group's factory has a safety officer who trains employees on safety in production and ensures that employees comply with safety production systems and operating procedures. Furthermore, the responsibilities of the safety officer include, but are not limited to, educating employees on the proper use of personal protective equipment, machineries and tools, inspecting and maintaining the safety equipment of the factory, and reporting to the senior management in a timely manner when potential safety risks are found in the production process.

6.2 Training on Safety Production

The Group clearly states in the *Safety Training System* that all employees are required to undergo rigorous safety training, be familiar with all the safety management systems, and sign the *Letter of Undertaking of Safety Production for Employee* prior to discharging duties. Safety training is divided into the following three levels:

Levels of training	Training content
Level 1 training	Laws and regulations of safety production, the Group's safety production rules and regulations, basic safety knowledge
Level 2 training	Characteristics of factory production, conditions of machinery and equipment, measures of accident prevention, various rules and regulations
Level 3 training	Safety technical operating procedures for work positions, production characteristics of work positions, performance of machinery and equipment, protection facilities for safety production, use of tools and personal protective equipment, accident case studies

6.3 Inspection and Review of Safety Production

The Group's *Safety Inspection System* indicates that the safety production inspection is mainly divided into system inspection and potential risk inspection. The system inspection includes monitoring of the soundness and implementation of the safety production system, while the potential risk inspection includes checking of whether there are potential safety risks in machinery and equipment, all kinds of buildings and dangerous goods. The Group organises different inspection activities for safety production each year, including a large-scale quarterly safety inspection at company level, a monthly regular safety inspection meeting organised by each factory to check safety production condition and report it to superiors. Each production teams conducts a five-minute safety production briefing at the start of each working day and a three-minute summary of safety inspection at the end of the day to promote safety awareness among employees at all times.

The Group holds quarterly departmental meetings to discuss safety duties such as safety production, labour protection, publicity and training of the previous quarter for continuous safety improvement. In addition, the *Reporting System of Safety Work* requires each department to submit a written report to the Group on its safety duties and accident control performance on a half-yearly basis. The report should include the following:

➢ Implementation of safety management, work-related casualties, fire hazards, traffic accidents, new occupational diseases, management of significant potential risks

➢ Innovative ideas related to safety management

➢ Safety work plan for the second half of the year

During the reporting period, the atomised powder-making team of the Group's Powder Metallurgy Industrialisation Centre was awarded the "2020 Role Model of Youth Safety Production Unit of Zhenjiang City".

Certificate of "2020 Role Model of Youth Safety Production Unit of Zhenjiang City"

6.4 Emergency Response

The Group has formulated the *Emergency Response Plan* for being well-prepared for carrying out emergency relief work in case of fire and other unexpected incidents. This plan lists out the major types of emergencies identified by the Group, including fire hazards, electric shock, explosion, food poisoning, heat stroke, vehicle accident, accident of falling from height and mechanical injury accident, etc. This plan also clearly explains how to handle each type of emergencies. The Group's Safety Production Leading Group is responsible for commanding and implementing emergency relief work in a timely manner to minimise casualties and property loss caused by fires and other accidents. In addition, the Group has set up a fire-fighting team, an first aid team, an emergency evacuation team, an external liaison team and a transportation support team to ensure that emergencies are handled in the most efficient manner, minimising the impacts of the incidents.

The Group reviews the *Emergency Response Plan* annually and revises it when necessary to ensure its applicability and effectiveness. We organise an annual training on knowledge and skills of emergency response to enhance the emergency response capability of all members of our Safety Production Leading Group and Emergency Response Team. This training includes emergency procedures, first aid practice, use of fire extinguishers, etc. Furthermore, we conduct annual emergency drill to enhance the practical experience and rescue capability of our Emergency Response Team. We will revise the *Emergency Response Plan* based on the problems identified during the drills.

6.5 Prevention and Control of Pandemic

In order to effectively prevent and control the novel coronavirus outbreak, the Group has set up an Emergency Leading Group for the Prevention and Control of Pandemic and formulated an *Emergency Plan for the Prevention and Control of the Pandemic*. The plan sets out the responsibilities and emergency measures for employees at different ranks. All personnel entering and leaving the factory or office are required to wear masks and have their body temperature checked. Anyone with an abnormal body temperature will be asked to rest at home, observe their health condition and, if necessary, seek timely medical treatment and conduct testing. Besides, we have a full range of pandemic prevention supplies, including infrared thermometers, alcohol disinfectants, hand sanitisers, masks, disposable gloves, etc.

7 People-oriented

The Group believes that the success of business development depends on the efforts and contributions of employees. We uphold the employee management principle of "People-oriented" to attract talents, building an outstanding team.

7.1 Employee Management

The Group has established a comprehensive *Human Resource Management System* to regulate the process of recruitment, promotion and dismissal. Our *Human Resource Management System* clearly sets out the management for each aspect of employment, including recruitment management, on-boarding process of new recruits, promotion management, employee dismissal management, employee welfare and employee training management, etc.

Diversity and Equality

The Group is dedicated to creating a diverse and inclusive work environment by appointing candidates on the basis of merits and welcoming talents with diverse backgrounds. We employ people based on the principle of "Openness, Fairness, Competition, Competitive Selection and Voluntariness" and offer equal employment opportunities to all candidates. We prohibit any form of discrimination. No candidate will be treated unfairly based on their age, gender, race, ethnicity, religion or physical disability. We select the most competitive candidate on the basis of moral character, knowledge, capability, work experience, etc.

The following is the Group's recruitment process:

Recruitment Information	Resume Screening	Interview	Formal Admission
Human Resource Department ("HR Department") selects the appropriate recruitment channels, publishes recruitment information, and specifies job position requirements	HR Department would screen the resume based on the *Job Position Description* after receiving candidates' application forms.	Candidates would have to attend interviews with the management of the relevant department after interviewing with the HR Department.	The candidate who obtained the acceptance letter is formally admitted after passing the background check and body check

Legal Labour

The Group prohibits the employment of child labour or forced labour. During the recruitment process, the Group's HR Department will verify the identity documents of candidates to ensure that they reach the age of 16 or above in order to avoid the employment of child labour. In addition, the Group does not advocate overtime working and does not force employees to work involuntarily. It is also stipulated in our labour contract that the daily working hours of our employees shall not exceed eight hours and the average weekly working hours shall not exceed forty hours. If necessary, employees are required to apply for overtime working to their supervisors in advance. If employment of child labour and forced labour are found, the Group will hold the relevant departments and personnel accountable and improve our human resource management system to prevent future recurrence.

Dismissal

In order to protect the rights and interests of both the Group and employees and to avoid labour disputes arising from termination of labour contracts, we have formulated the *Regulations on the Management of Employment Termination* to regulate the procedures of employee termination. The employment contract signed between us and our employees clearly stipulates the details of employment termination, including the notice period for termination of employment and the penalties incurred due to dismissal or resignation. Employees are required to have an interview with their supervisors before their formal departure, and to properly hand over their jobs and complete the employment termination procedures to ensure proper business operations.

7.2 Remuneration and Benefits

In order to attract, retain and motivate talents, the Group has established an attractive remuneration and benefits system. The Group has formulated the *Compensation Management Regulations for Executive Management Positions* and the *Compensation Management Regulations for Technical and Management Positions*, which specify the remuneration structure and criteria for salary adjustment for each position rank. Salary adjustments for employees are mainly based on their annual comprehensive assessment scores. The assessment score is composed of three components, namely self-rating, rating by departmental colleagues and rating by supervisors.

In addition, we provide various social insurance for our employees in strict accordance with national policies, including basic pension insurance, basic medical insurance, maternity insurance, work injury insurance, unemployment insurance, housing fund, etc. The Group's *Regulations on Employee Leaves* also ensures that employees are entitled to paid leave and other statutory leaves such as wedding leave, maternity leave and funeral leave as required by law. Apart from statutory benefits, we also provide different kinds of benefits to our employees, including free meals at work, free medical check-ups, additional insurance, festive benefits, fare reimbursement in the Spring Festival, travel benefits, etc.

During the reporting period, we completed the renovation of the employee recreation hall. The hall is equipped with self-service coffee machines, table tennis tables, billiard tables and massage chairs. Our employees could access the facilities in the hall to relax and bond with colleagues.

Lounge

Bookshelves

Equipment of Table Tennis and Billiards

7.3 Hearts are with Tiangong

The Group actively organises a wide variety of activities to enrich employees' lives, promoting team collaboration and employees' sense of belonging to the Group.

The Tenth Sports Competition for Employees

During the reporting period, the Group held the Tenth Sports Competition for Employees. There were more than twenty types of individual and team competitions. This event fully demonstrated the team spirit of our employees and their perseverance. The Group prepared more than one hundred and thirty awards for employees with outstanding achievements in the competition.

Opening Ceremony of the Tenth Sports Competition for Employees

Closing Ceremony and Award Ceremony of the Tenth Sports Competition for Employees

The 2021 Spring Festival Gala and the 2020 Honouring Ceremony

In February 2021, the Group held the 2020 Honouring Ceremony to summarise the achievements of the Group during the reporting period. We also presented awards and prizes to individual employees and teams with outstanding performance during the reporting period and recognise their contribution to the Group. The awards include the Model of Tiangong, the Best Team, the Star of Sales, the Star of Innovation and the Best New Employee.

Performance show of 2021 Spring Festival Gala

Employees with awards and prizes

7.4 Promotion and Development

The Group has continually devoted resources to enhance the professional knowledge and skills of our employees and provide fair promotion opportunities, creating a positive working environment.

Promotion System

The Group has a transparent promotion system. We have developed the *Promotion Management Regulations* to regulate employee promotion management procedures. Employees could clearly understand the requirements for promotion and would be able to continuously improve themselves in order to be promoted based on their personal strengths.

Unlocking Potential

To broaden the career path of our employees, the Group provides different types of training to enhance their basic and professional knowledge and skills. The Group attaches great importance to the induction training of new employees. In order to familiarise new employees with the Group's cultural and systems and be competent for their new positions as soon as possible, the Group has formulated the *Measures for the Administration of Induction Training for New Employees* to regulate the management of new employees' induction training.

The induction training of new employees is divided into two stages. The first stage of training is organised by the Human Resources Department and covers the history and status of the corporate, corporate culture, rules and regulations, teamwork, organisational and departmental responsibilities. The second stage of training is organised by senior employees from all departments. New employees are required to attend training related to their jobs, such as tool processes and applications, quality management knowledge, safety operating procedures, etc. We conduct training assessments for our employees to ensure that they fully understand the training content and master the professional knowledge and skills.

During the reporting period, various departments of the Group organised different types of specialised training. For example, the International Trade Department organised a risk prevention training with the theme of "Credit Insurance". This training aims to enhance employee awareness of credit insurance and risk prevention skills in order to reduce business risks. In addition, the International Trade Department also organised a series of training sessions to enhance the overall quality of our sales employees, including their knowledge of product types and production processes.

In order to cultivate talent in technician posts, the Group adopts one-to-one apprenticeship program. Experienced employees (i.e. masters) would transfer various experience and working methods to new employees (i.e. apprentices) by passing on knowledge, helping and guiding apprentices. Our *Interim Measures for "Master-Apprentice" Program* sets out the details of the relevant system, including the qualifications for becoming masters, the way master-apprentice relations are established, and the duties of masters and apprentices. The Group also sets up a reward mechanism to reward masters and outstanding new employees.

8 Responsible Operation

8.1 Supplier Management

In order to standardise the processes of tendering and procurement and strengthen the supervision of the process, the Group has formulated internal policies such as the *Regulations Governing the Procurement of Supplies and Price Accounting*, the *Regulations on the Tender Management* and the *Regulations on Procurement Management and Implementation (Trial)*. We strictly enforce these internal policies to ensure fair, impartial and transparent tendering and procurement processes.

The Group mainly procures raw materials such as metals and equipment. In order to reduce procurement risk, the Group's Supply Department proactively searches for new high-quality suppliers, regularly updates the list of qualified suppliers, and ensures that at least three suppliers are available for selection for each product. When the Group engages suppliers, we would invite at least three suppliers from the list of qualified suppliers to participate in the assessment of supplier selection. We would invite the departments which would use the product and the relevant technical departments to assess the suppliers. After reaching a consensus on the choice of supplier to be engaged, the departments will sign the *Tender Summary Form* for confirmation and then send it to the General Manager of the relevant subsidiaries for approval.

The Group conducts annual review about the service, environmental and social performance of our suppliers. Items to be reviewed include product quality, delivery time, after-sales service, management level, whether environmental and social management measures have been developed, etc. To ensure stable supply of raw material with high quality, the Group also conducts regular meetings with suppliers. Besides, we would arrange on-site audits to assess the social responsibility performance of our suppliers. The Group will terminate our partnership with suppliers if they are found to be in violation of laws, such as employing child labour or forced labour. In addition, the Group gives priority to employing local suppliers to reduce pollutant emissions from the supply chain.

8.2 Combating Corruption and Promoting Integrity

The Group attaches great importance to operational compliance and does not tolerate any form of corruption, bribery, extortion, money laundering and fraud. Such actions not only violate laws and regulations, but also seriously damage the integrity and reputation of the Group.

In order to strengthen the employees' awareness of integrity and self-discipline, we have formulated the *Regulations on the Integrity and Self-Discipline of Employees*. This provision lists out the ethical code of conduct, supervision mechanisms, violation handling and so on. In addition, we would invite members of the judiciary and the courts to conduct anti-corruption trainings for our management and employees, enhancing their awareness of anti-corruption. To ensure that our employees are aware of their responsibilities, we require them to sign the *Letter of Undertaking of Integrity and Self-Discipline for Employees*.

The Group has set up the whistleblowing hotline and email to receive anonymous reports of corruption from insiders and outsiders. The Group's Administrative Department, Legal Department and Internal Audit Department will conduct investigations based on the complaints and information provided by whistle-blowers, ensure the authenticity of the complaints, collect relevant evidence and make recommendations for case handling based on investigation findings. If an employee's reporting on corruption cases is substantiated, the employee will receive a bonus as an incentive. The Group does not condone any form of corruption. If an employee is found to be involved in corruption or other criminal offences, we will transfer the case to our Legal Department and the judiciary. During the reporting period, the Group did not receive any concluded legal cases regarding corruption practices brought against the Group or our employees.

9 Passion for Philanthropy

The Group actively contributes to the society with a focus on the charitable work in higher education and continues to pay attention to and support school development. We have remained in close communication with several higher education institutions to understand the needs of educational development. The Group established the "Tiangong Development Scholarship" in 2007. We have been continuously subsidising students with financial difficulties at Nanjing Normal University for more than a decade. We hope to reduce the financial burden of the students so that they can concentrate on studying and enjoy college life. Meanwhile, we hope that the scholarship will inspire students to be determined in becoming elites and contribute to the society in the future.

During the reporting period, the Group donated RMB10 million yuan to set up the "Tiangong International Scholarship Fund for Nanjing University" to support the outstanding students at Nanjing University and to provide important support and motivation for talent cultivation. There are "Tiangong International Overseas Exchange Scholarships" and "Tiangong International Scholarships" under the fund. The "Tiangong International Overseas Exchange Scholarship" aims to subsidise postgraduates and undergraduates with outstanding academic achievements and financial difficulties to study abroad at the first-class universities or first-class research institutions, providing support for the development of the new materials industry in China. The "Tiangong International Scholarship" aims to help students who have good conduct and academic performance to successfully graduate.

Ceremony of the Establishment of Tiangong International Scholarship Fund for Nanjing University

In addition to the contribution in educational charity, the Group donated a total of RMB1.6 million yuan to the Red Cross Society of China Jiangsu Branch during the reporting period to fully support its efforts in combating the pandemic and actively fulfil our corporate social responsibility.

Philanthropy Award from the Red Cross Society of China Jiangsu Branch

10 Environmental Key Performance Indicators[1]

Indicators	Units	2020	2019
Products			
Amount of products: steel and titanium alloy	Tonnes	**211,835.25**	201,136.90
Air pollutants[2]			
Sulphur oxides emissions	Tonnes	**0.83**	0.70
Nitrogen oxides emissions	Tonnes	**66.33**	64.88
Wastewater			
Wastewater discharge	Tonnes	**187,951.00**	164,319.00
GHG[3]			
Scope 1: Direct emissions	Tonnes CO_2 equivalent	**88,269.05**	74,878.59
Scope 2: Indirect emissions	Tonnes CO_2	**409,713.14**	429,286.91
Total GHG emissions	Tonnes CO_2 equivalent	**497,982.19**	504,165.50
GHG emissions intensity	Tonnes CO_2 equivalent/ tonne of products	**2.35**	2.51
Non-hazardous wastes			
Melting slag	Tonnes	**33,029.20**	29,856.00
Waste paper	Tonnes	**125.24**	151.48
Total amount of non-hazardous wastes	Tonnes	**33,154.44**	30,007.48
Intensity of non-hazardous wastes	Tonnes/tonne of products	**0.16**	0.15

1 The scope of environmental data for 2020 is consistent with that of 2019, which includes the production factories of the Group located at Danyang City and Jurong City. The data involved are derived from data recorded by the Group or conservative estimates based on historical performance or benchmarking with similar facilities.

2 The Group updated the emission factors of air pollutant emissions in 2020. The calculation of air pollutant emissions in 2020 is based on the *Second National Census of Pollution Sources (Trial)*, the *Road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial)* and the *Non-road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial)*. The calculation of air pollutant emissions in 2019 is based on the *First National Census of Pollution Sources and the Road Vehicles Air Pollutant Emission Inventory Preparation Technical Guide (Trial)*. Besides, the air pollutant emissions from factory machineries were newly added in 2020.

3 The calculation of GHG emissions for natural gas and diesel in 2020 is based on the *Guidelines for Accounting and Reporting of Greenhouse Gas Emissions from Steel Production Enterprises in China (Trial)*; the calculation of GHG emissions for gasoline was based on the *Guidelines for Accounting and Reporting Greenhouse Gas Emissions China Land Transportation Enterprises (Trial)*. The Group updated the GHG emission factor for electricity. The calculation of GHG emissions for electricity in 2020 is based on the 2015 national grid average emission factor of the *Notice on the Preparation of 2018 Carbon Emissions Reports and Verification and Emissions Monitoring Plan*; the calculation of GHG emissions for electricity in 2019 is based on the *2011 and 2012 Chinese Regional Grid Average Carbon Dioxide Emission Factor*. The GHG emission of factory machineries are newly added in 2020.

Indicators	Units	2020	2019
Hazardous wastes			
Acidic and alkaline wastes	Tonnes	**30,803.14**	24,581.00
Other hazardous wastes[4]	Tonnes	**714.76**	684.34
Total amount of hazardous wastes	Tonnes	**31,517.90**	25,265.34
Intensity of hazardous wastes	Tonnes/tonnes of products	**0.15**	0.13
Direct energy[5]			
Direct energy consumption[6]	Megawatt hours	**440,901.88**	374,387.65
Direct energy consumption intensity	Megawatt hours/ tonne of products	**2.08**	1.86
Natural gas consumption	Ten thousand cubic meters	**4,060.39**	3,458.45
Natural gas consumption intensity	Ten thousand cubic meters/ tonne of products	**0.02**	0.02
Gasoline consumption	Litres	**21,470.69**	43,028.50
Gasoline consumption intensity	Litres/tonne of products	**0.10**	0.21
Diesel consumption	Litres	**165,950.24**	–
Diesel consumption intensity	Litres/tonne of products	**0.78**	–
Indirect energy[7]			
Indirect energy consumption (Electricity consumption)	Megawatt hours	**671,550.80**	610,215.93
Indirect energy consumption intensity (Electricity consumption intensity)	Megawatt hours/ tonne of products	**3.17**	3.03
Water			
Water consumption	Tonnes	**291,275.00**	275,512.00
Water consumption intensity	Tonnes/tonne of products	**1.38**	1.37
Packaging materials			
Packaging material consumption	Tonnes	**4,768.54**	2,905.87
Packaging material consumption intensity	Tonnes/tonne of products	**0.02**	0.01

4 Other hazardous wastes in 2020 includes the dust collected from dust removal devices during production, waste lubricating oil, waste mineral oil and waste batteries, etc. The category of other hazardous wastes in 2020 differs from that in 2019 with the addition of waste batteries.

5 Direct energy consumption represents the total energy consumption of natural gas, gasoline and diesel in unit of Megawatt hours. Diesel consumed by factory machineries is newly added to the direct energy consumption in 2020 but is not included in 2019.

6 The unit conversion for energy consumption for natural gas, gasoline and diesel is based on the *Guidelines for Accounting and Reporting of Greenhouse Gas Emissions from Steel Production Enterprises in China (Trial).*

7 Indirect energy consumption represents the energy consumption of electricity in unit of Megawatt hours.

11 Social Key Performance Indicators[8]

Indicators	Units	2020[9]
Number of employees (as of the end of the reporting period)		
Total number of employees	No. of employees	**3,008**
By gender		
Male	No. of employees	**2,162**
Female	No. of employees	**846**
By employment type		
Full-time	No. of employees	**3,008**
Part-time	No. of employees	**0**
By age group		
Under 31 years old	No. of employees	**406**
31–50 years old	No. of employees	**1,832**
Above 50 years old	No. of employees	**770**
By region		
Mainland China	No. of employees	**2,997**
Region out of Mainland China	No. of employees	**11**
Employee turnover rate[10]		
By gender		
Male	Percentage	**13%**
Female	Percentage	**22%**
By age group		
Under 31 years old	Percentage	**20%**
31–50 years old	Percentage	**13%**
Above 50 years old	Percentage	**19%**
By region		
Mainland China	Percentage	**15%**
Region out of Mainland China	Percentage	**0%**

8 The scope of the number of employees, employee turnover rate, percentage of employees trained and average training hours completed per employee is consistent with the reporting scope of the Annual Report 2020. The scope of the other social data is consistent with the reporting scope of the ESG report.

9 The Group disclosed social KPIs for the first time in 2020, therefore comparative data for consecutive years is not available.

10 The formula for calculating the employee turnover rate for each category: employees in the specified category who left/number of employees in the specified category × 100%.

Indicators	Units	2020[9]
Percentage of employees trained		
Percentage of employees trained[11]	Percentage	100%
By gender[12]		
Male	Percentage	72%
Female	Percentage	28%
By employee category		
Senior management	Percentage	3%
Middle management	Percentage	14%
General employees	Percentage	83%
Average training hours completed per employee		
Average training hours completed per employee[13]	Hours	25
By gender[14]		
Male	Hours	25
Female	Hours	25
By employee category		
Senior management	Hours	28
Middle management	Hours	10
General employees	Hours	18

Indicators	Units	2020[9]
Number of suppliers		
By region		
Mainland China	Number of suppliers	510
Region out of Mainland China	Number of suppliers	5
Complaints of products and service		
Number of products and service related complaints received	Cases	72
Rate of products and service related complaints resolved	Percentage	100%

Indicators	Units	2020	2019	2018
Work-related injury and fatalities				
Number of work-related fatalities	No. of employees	0	0	0
Rate of work-related fatalities	Percentage	0%	0%	0%
Lost days due to work injury	Day	0	0	0

11 The formula for calculating the percentage of employees trained: number of employees trained/total number of employees × 100%.

12 The formula for calculating the percentage of employees trained for each category: the number of employees trained in the specified category/total number of employees trained × 100%.

13 The formula for calculating the average training hours completed per employee: total number of training hours/total number of employees × 100%.

14 The formula for calculating the average number of training completed per an employee for each category: total number of training hours for employees in the specified category/total number of employees in the specified category × 100%.

12 Compliance with ESG-related Laws and Regulations

Aspects of the ESG Guide	The laws and regulations that have a significant impact on the Group that the Group complies with (including but not limited to)	Performance during the reporting period
Environmental		
Aspect A1: Emissions	➢ *Law of the People's Republic of China (PRC) on Promoting Clean Production* ➢ *Environmental Protection Law of the PRC* ➢ *Atmospheric Pollution Prevention and Control Law of the PRC* ➢ *Water Pollution Prevention and Control Law of the PRC* ➢ *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste* ➢ *Environmental Protection Tax Law of the PRC* ➢ *Law of the PRC on Appraising of Environment Impacts* ➢ *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 exhaust gas and GHG emissions, discharges into water and land, and generation and disposal of waste
Social		
Aspect B1: Employment	➢ *Labour Law of the PRC* ➢ *Labour Contract Law of the PRC* ➢ *Trade Union Law of the PRC* ➢ *Special Rules on the Labour 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

Aspects of the ESG Guide	The laws and regulations that have a significant impact on the Group that the Group complies with (including but not limited to)	Performance during the reporting period
Aspect B2: Health and Safety	➢ *Production Safety Law of the PRC* ➢ *Law of the PRC on the Prevention and Control of Occupational Diseases* ➢ *Special Equipment Safety Law of the PRC* ➢ *Standards Labour 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: Labour Standards	➢ The *Labour Law of the PRC* ➢ 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 labour and forced labour
Aspect B6: Product Responsibility	➢ *Production Safety Law of the PRC* ➢ *Advertising Law of the PRC* ➢ *Trademark Law of the PRC* ➢ *Law of the PRC on the Protection of Consumer Rights and Interests* ➢ *Chemicals Convention*	No violation of any laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress
Aspect B7: Anti-corruption	➢ *Criminal Law of the PRC* ➢ Listing Rules	No violation of laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering

13 Environmental, Social and Governance Reporting Guide Content Index

General Disclosure & KPI		Description	Relevant Section
A. Environmental			
Aspect A1:Emissions			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	4 Environmental Management, 12 Compliance with ESG-related Laws and Regulations
KPI	A1.1	The types of emissions and respective emissions data	10 Environmental Key Performance Indicators
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	10 Environmental Key Performance Indicators
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	10 Environmental Key Performance Indicators
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10 Environmental Key Performance Indicators
	A1.5	Description of measures to mitigate emissions and results achieved	4 Environmental Management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	4 Environmental Management

General Disclosure & KPI		Description	Relevant Section
Aspect A2: Use of Resources			
General Disclosure		Policies on the efficient use of resources, including energy, water and other raw materials.	4 Environmental Management
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)	10 Environmental Key Performance Indicators
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	10 Environmental Key Performance Indicators
	A2.3	Description of energy use efficiency initiatives and results achieved	4 Environmental Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	4 Environmental Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	10 Environmental Key Performance Indicators
Aspect A3: The Environmental and Natural Resources			
General Disclosure		Policies on minimizing the issuer's significant impact on the environment and natural resources	4 Environmental Management
KPI	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	4 Environmental Management
B. 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	7 People-oriented, 12 Compliance with ESG-related Laws and Regulations
KPI	B1.1	Total workforce by gender, employment type, age group and geographical region	11 Social Key Performance Indicators
	B1.2	Employee turnover rate by gender, age group and geographical region	11 Social Key Performance Indicators

General Disclosure & KPI		Description	Relevant Section
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 Safety First, 12 Compliance with ESG-related Laws and Regulations
KPI	B2.1	Number and rate of work-related fatalities	11 Social Key Performance Indicators
	B2.2	Lost days due to work injury	11 Social Key Performance Indicators
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	6 Safety First
Aspect B3: Development and Training			
General Disclosure		Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	7 People-oriented
KPI	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	11 Social Key Performance Indicators
	B3.2	The average training hours completed per employee by gender and employee category	11 Social Key Performance Indicators
Aspect B4: Labour Standards			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	7 People-oriented, 12 Compliance with ESG-related Laws and Regulations
KPI	B4.1	Description of measures to review employment practices to avoid child and forced labour	7 People-oriented
	B4.2	Description of steps taken to eliminate such practices when discovered	7 People-oriented

General Disclosure & KPI		Description	Relevant Section
Aspect B5: Supply Chain Management			
General Disclosure		Policies on managing environmental and social risks of the supply chain	8 Responsible Operation
KPI	B5.1	Number of Suppliers by geographical region	11 Social Key Performance Indicators
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	8 Responsible Operation
Aspect B6: Product Responsibility			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	5 Quality of Tiangong, 12 Compliance with ESG-related Laws and Regulations
KPI	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Due to the Group's product nature, we do not involve recalls of products for safety and health reasons.
	B6.2	Number of products and service related complaints received and how they are dealt with	5 Quality of Tiangong
	B6.3	Description of practices relating to observing and protecting intellectual property rights	5 Quality of Tiangong
	B6.4	Description of quality assurance process and recall procedures	5 Quality of Tiangong
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	5 Quality of Tiangong

General Disclosure & KPI		Description	Relevant Section
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	8 Responsible Operation, 12 Compliance with ESG-related Laws and Regulations
KPI	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases	8 Responsible Operation
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	8 Responsible Operation
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	9 Passion for Philanthropy
KPI	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	9 Passion for Philanthropy
	B8.2	Resources contributed (e.g. money or time) to the focus area	9 Passion for Philanthropy

DIRECTORS & SENIOR MANAGEMENT

Executive Directors

Mr. ZHU Xiaokun, aged 64, 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 48, 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.

* With effect from 30 March 2021, Mr. Wu resigned from his position as the Chief Executive Officer of the Company and was appointed as the General Manager of TG Tools.

Mr. YAN Ronghua, aged 52, 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 56, 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 77, 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 50, 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), Cathay Media and Education Group Inc. (Stock Code of HKEx: 1981) and C&D Property Management Group Co., Ltd. (Stock Code of HKEx: 2156). 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), 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), and an independent director of Gridsum Holding Inc. (GSUM.US) (resigned in 2021).

Mr. WANG Xuesong, aged 49, 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 37, 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 55, 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 39, 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. Zhu was appointed as the Chief Executive Officer of the Company with effect from 30 March 2021.

Mr. JIANG Rongjun, aged 57, is an Executive Director and the General Manager of TG Tech. He joined the Group in 1985 as a workshop officer. Mr. Jiang is currently in charge of the production, sales and management of titanium alloy plant.

Mr. LEE Johnly, aged 41, 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 2020, 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)*	9/10	N/A	1/1	1/1
Mr. Wu Suojun *(Chief executive officer)*	10/10	N/A	N/A	N/A
Mr. Jiang Guangqing	10/10	N/A	N/A	N/A
Mr. Yan Ronghua	10/10	N/A	N/A	N/A
Mr. Gao Xiang	9/10	2/2	1/1	1/1
Mr. Lee Cheuk Yin Dannis	10/10	2/2	1/1	1/1
Mr. Wang Xuesong	10/10	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 28 May 2020. Mr. Lee Cheuk Yin, Dannis acted as the chairman of the AGM.

The attendance records of the Directors at the shareholders' meetings held in the year 2020 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	✓

* Due to COVID-19 pandemic, Mr Zhu Xiaokun attended the AGM by way of video conference.

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, the Independent Non-executive Director, were unable to attend the AGM due to the COVID-19 pandemic.

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 60 to 61 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 2020, 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 2020.

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 2020, 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 (Note). 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 2020, the Chairman has held a meeting with the Independent Non-Executive Directors without the Executive Directors being present.

Note: Mr Wu Suojun stepped down from his role as Chief Executive Office of the Company with effect from 30 March 2021 and would remain as an executive Director of the Company. Mr. Zhu Zefeng was appointed as the new Chief Executive Officer of the Company with effect from 30 March 2021. For further details, please refer to the Company's announcement dated 29 March 2021.

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 held a meeting on 26 March 2021 to consider and review the 2020 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 2020 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 2020 and one meeting to date in 2021.

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 2020 and one meeting to date in 2021.

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 2020, the remuneration of the senior management is listed as below by band:

Band of remuneration	No. of persons
RMB0 to RMB1,000,000	12

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 meeting in 2020 and one meeting to date in 2021. 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 2020. 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 2020, the total remuneration paid or payable to KPMG was RMB3,850,000, including RMB2,850,000 for consolidated financial statements audit service and RMB1,000,000 for non-audit professional service.

The Model Code for Securities Transactions by Directors of Listed Issuers

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with and on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). All of the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors and employees who may possess or have access to price sensitive information or inside information during the year ended 31 December 2020.

Dividend Policy

The Group adopted the Dividend Policy on January 2020. 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
20/F, Tien Chu Commercial Building
173-174 Gloucester Road, 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 2020.

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 18 to the financial statements.

Financial Statements

The results of the Group for the year ended 31 December 2020 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 98 and 99.

The financial position of the Group as at 31 December 2020 is set out in the consolidated statement of financial position of the Group on pages 100 to 101. The financial position of the Company as at 31 December 2020 is set out in note 38 to the financial statement on page 191.

The cash flows of the Group for the year ended 31 December 2020 are set out in the consolidated cash flow statement on pages 104 to 105.

Results and Appropriations

The Board proposed a final dividend payment of RMB0.0732 per share for the financial year ended 31 December 2020 (2019: RMB0.0545).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB3,205,000 (2019: RMB676,000).

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 34 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 2020, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,328,779,000 (2019: RMB1,483,726,000).

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 34 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 6 to 25 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 41 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 25 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 2020, 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]	Interests of controlled corporations	774,758,000 (L)	29.85
	Beneficial owner	3,800,000 (L)	0.15
			30.0
Wu Suojun	Beneficial owner	2,400,000 (L)	0.09
Yan Ronghua	Beneficial owner	1,500,000 (L)	0.06
Jiang Guangqing	Beneficial owner	900,000 (L)	0.03

Notes:

As at 31 December 2020,

(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 774,758,000 shares held by THCL.

(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	14,483,951 (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 held 14,483,951 shares in TG Tech.

(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 2020, 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 (%)
Yu Yumei(1)	Spousal interest(2)	778,558,000 (L)	30.00
THCL(1)	Beneficial owner	774,758,000 (L)	29.85
Zhu Zefeng	Interests of controlled corporations(3 and 4)	659,700,521 (L)	25.42
	Beneficial owner	1,500,000 (L)	0.06
Niu Qiu Ping	Spousal interest(5)	661,200,521 (L)	25.48
Sky Greenfield Investment Limited	Beneficial owner(3)	659,700,521 (L)	25.42

(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) Silver Power (HK) Limited, which was wholly owned by Sky Greenfield Investment Limited, held 43,932,000 ordinary shares.

(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.

* 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]	14,483,951 (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 20 July 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 HKD152,601,570; 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 55.60% 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 60 to 62.

Final Dividend and Closure of Register of Members

The register of members of the Company will be closed from 27 May 2021 to 1 June 2021 (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 1 June 2021, 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 26 May 2021.

The Board has resolved on 29 March 2021 to recommend the payment of a final dividend of RMB0.0732 per share for the year ended 31 December 2020 (2019: RMB0.0545) to shareholders of the Company whose names appear on the register of members of the Company on 5 July 2021. The register of members will be closed from 6 July 2021 to 9 July 2021, both days inclusive, and the proposed final dividend is expected to be paid on or before 23 July 2021. 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 1 June 2021. 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 July 2021.

Share Option Scheme

The current share option scheme of the Company was approved by the Company in the annual general meeting held on 26 May 2017 ("Share Option Scheme").

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.

The remaining 30,000,000 shares were vested on 31 March 2020. All share options for these 30,000,000 shares were exercised between 23 November 2020 to 30 December 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. Wu Suojun	800,000	–	800,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.49
Mr. Yan Ronghua	500,000	–	500,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.49
Mr. Jiang Guangqing	300,000	–	300,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.49
Mr. Gao Xiang	150,000	–	150,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.30
Mr. Lee Cheuk Yin, Dannis	150,000	–	150,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.40
Mr. Wang Xuesong	150,000	–	150,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.52
Employees	27,950,000	–	27,960,000	–	–	11 January 2018	01 April 2020 to 31 December 2020	HKD1.50	HKD1.29	3.20–3.49
	30,000,000	–	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(p)(ii) and note 32 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 37 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 2020, 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 2020, the Company repurchased 4,050,000 shares in total, at an aggregate consideration of HKD9,768,280.00 on The Stock Exchange of Hong Kong Limited. The shares repurchased were cancelled on 15 July 2020. Details of the repurchases of such ordinary shares were as follows:

		Price per ordinary shares		
Month of repurchase	No. of ordinary shares repurchased	Highest (HKD)	Lowest (HKD)	Aggregate consideration paid (HKD)
June 2020	4,050,000	2.50	2.35	9,768,280
Total	4,050,000			9,768,280

Given trading conditions were sometimes volatile during the year and there were occasions when the shares were trading at a substantial discount to their underlying net asset value, repurchases of the shares could enhance the Company's net asset value per share and earnings per share. The Directors considered the repurchase of shares was beneficial to shareholders who retain their investment in the Company since their percentage interest in the assets of the Company would increase in proportion to the number of shares repurchased by the Company.

Save as disclosed, during the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Issue of Shares or Debentures

Save as disclosed in this annual report, during the year ended 31 December 2020, 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 2020, 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. INED, Mr. Gao Xiang, was unable to attend the annual general meeting of the Company held on 28 May 2020 due to the COVID-19 pandemic.

Audit Committee

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 26 March 2021 to consider and review the 2020 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 2020 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 2020 is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer/supplier	14%	12%
Five largest customers/suppliers in aggregate	29%	35%

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 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 website of the Stock Exchange at www.hkexnews.hk.
On 16 July 2020, TG Tools, an indirect 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 2020. The total amount of goods supplied under the aforementioned agreement was expected not to exceed RMB30 million.	For details, please refer to the announcement on the continuing connected transactions published by the Company on 16 July 2020 on the website of the Stock Exchange at www.hkexnews.hk.

Description of the event	Enquiry index
On 13 November 2020, TG Tools, as purchaser, entered into an equity interest transfer agreement, pursuant to which TG Tools would acquire entire equity interest of Weijian Tools from Smart Rich Industrial Limited ("Smart Rich") and 丹陽市乾嘉投資合夥企業(Dangyang City Qianjia Investment Partnership*) for a total consideration of RMB108,695,500.	For details, please refer to the announcement on the connected transaction published by the Company on 13 November 2020 on the website of the Stock Exchange at www.hkexnews.hk.
On 28 December 2020, TG Tools and Danyang Tianyi, being a shareholding platform of certain employees of TG Tools, entered into a subscription agreement, pursuant to which Danyang Tiangyi will subscribe for registered capital of RMB26,084,411, representing approximately 1% of the enlarged equity interest in TG Tools at the consideration of RMB85,000,000.	For details, please refer to the announcement on the connected transaction published by the Company on 28 December 2020 on the website 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) Mr. Zhu Zefeng, a substantial shareholder of the Company, is the 100% owner of Smart Rich.

(4) Danyang Tianyi is an investment holding entity set up for the purpose of implementing TG Tools' employee share incentive scheme. For the details on the general partner and limited partners of Danyang Tianyi, please refer to the section headed "Information on the Company and the Parties to the Investment Agreement, Subscription Agreement and Shareholders' Agreement" of the Company's announcement dated 28 December 2020.

Save for the above, the continuing connected transactions of the Group on leases from controlling shareholders disclosed in note 37 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 2020 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 2020, the Group pledged certain bank deposits amounting to approximately RMB384,700,000 (31 December 2019: RMB610,400,000) and certain trade receivables amounting to approximately RMB160,835,000 (31 December 2019: RMB107,037,000).

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 194. 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, 29 March 2021

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 98 to 193, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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 124.

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 includes 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 124.

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 2020 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.

Expected credit loss allowances for trade receivables

Refer to Note 24 to the consolidated financial statements and the accounting policies on page 114 to 117.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2020, the gross amount of the Group's trade receivables totalled RMB1,254 million, against which a loss allowance of RMB87 million for expected credit losses (ECLs) was made. The carrying value of the Group's trade receivables represented approximately 10% of the total assets as at 31 December 2020. Management measures the loss allowance at an amount equal to lifetime ECLs based on estimated loss rates for each category of trade receivables grouped according to the shared credit risk characteristics. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement and estimation. We identified the expected credit loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the expected credit loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standard; • assessing whether items in the trade receivables ageing report were categorised in the appropriate ageing bracket by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by management, including the basis of segmentation of the trade receivables based on shared credit risk characteristics of customers in management's estimated loss rates; • assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current market conditions, customer-specific conditions and forward-looking information; and • re-performing the calculation of the loss allowance as at 31 December 2020 based on the Group's credit loss allowance policies.

Valuation of inventories

Refer to Note 23 to the consolidated financial statements and the accounting policies on page 119.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2020, the Group's gross inventories totalled RMB1,720 million, against which provisions for inventories of RMB32 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 have 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, actions taken to eliminate threats or safeguards applied.

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.

KMPG
Certified Public Accountants

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

29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020 (Expressed in Renminbi)

	Note	**2020 RMB'000**	2019 RMB'000
Revenue	5	**5,220,944**	5,369,873
Cost of sales		**(4,006,964)**	(4,350,214)
Gross profit		**1,213,980**	1,019,659
Other income	6	**70,429**	55,895
Distribution expenses		**(87,489)**	(97,554)
Administrative expenses		**(105,963)**	(129,363)
Research and development expenses		**(307,738)**	(259,078)
Other expenses	7	**(35,424)**	(1,990)
Profit from operations		**747,795**	587,569
Finance income		**24,345**	26,450
Finance expenses		**(151,654)**	(156,636)
Net finance costs	8(a)	**(127,309)**	(130,186)
Share of losses of associates	19	**(2,195)**	(544)
Share of profits/(losses) of joint ventures	20	**3,526**	(6,468)
Profit before taxation	8	**621,817**	450,371
Income tax	9	**(81,495)**	(46,353)
Profit for the year		**540,322**	404,018
Attributable to:			
Equity shareholders of the Company		**537,024**	395,146
Non-controlling interests		**3,298**	8,872
Profit for the year		**540,322**	404,018
Earnings per share (RMB)	13		
Basic		**0.209**	0.156
Diluted		**0.209**	0.155

The notes on pages 106 to 193 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 34(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020 (Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Profit for the year		**540,322**	404,018
Other comprehensive income for the year (after tax adjustment)	12		
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income (FVOCI) — net movement in fair value reserve (non-recycling) (net of tax of RMB760,000 (2019: RMB2,466,000))		**(4,840)**	12,480
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
— financial statements of entities with functional currencies other than Renminbi ("RMB") (net of nil tax (2019: nil))		**6,795**	1,826
Other comprehensive income for the year		**1,955**	14,306
Total comprehensive income for the year		**542,277**	418,324
Attributable to:			
Equity shareholders of the Company		**538,979**	409,452
Non-controlling interests		**3,298**	8,872
Total comprehensive income for the year		**542,277**	418,324

The notes on pages 106 to 193 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020 (Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	14	**4,136,546**	3,866,888
Lease prepayments	15	**147,576**	113,353
Intangible assets	16	**18,842**	–
Goodwill	17	**21,959**	21,959
Interest in associates	19	**55,573**	53,466
Interest in joint ventures	20	**28,350**	27,638
Other financial assets	21	**135,810**	141,500
Deferred tax assets	33(b)	**44,170**	37,109
		4,588,826	4,261,913
Current assets			
Financial assets at fair value through profit or loss	22	**877,117**	2,765
Inventories	23	**1,688,371**	1,734,664
Trade and other receivables	24	**2,481,866**	2,708,618
Pledged deposits	25	**384,700**	610,400
Time deposits	26	**350,000**	500,000
Cash and cash equivalents	27	**827,246**	398,017
		6,609,300	5,954,464
Current liabilities			
Interest-bearing borrowings	28	**2,773,982**	2,612,845
Trade and other payables	29	**1,618,745**	1,600,858
Current taxation	33(a)	**64,138**	28,122
Deferred income	30	**–**	6,509
Other financial liability	31	**350,000**	–
		4,806,865	4,248,334
Net current assets		**1,802,435**	1,706,130

As at 31 December 2020 (Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Total assets less current liabilities		**6,391,261**	5,968,043
Non-current liabilities			
Interest-bearing borrowings	28	**591,837**	638,888
Deferred income	30	**58,082**	51,369
Deferred tax liabilities	33(c)	**101,033**	74,652
		750,952	764,909
Net assets		**5,640,309**	5,203,134
Capital and reserves			
Share capital	34(d)	**46,186**	45,766
Reserves		**5,424,038**	4,990,581
Total equity attributable to equity shareholders of the Company		**5,470,224**	5,036,347
Non-controlling interests		**170,085**	166,787
Total equity		**5,640,309**	5,203,134

Approved and authorised for issue by the board of directors on 29 March 2021.

Zhu Xiaokun
Directors

Yan Ronghua
Directors

The notes on pages 106 to 193 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (Expressed in Renminbi)

		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	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2019 and 1 January 2020		45,766	2,029,869	492	70,041	91,925	(58,812)	–	58,410	674,597	2,124,059	166,787	5,203,134
Changes in equity for 2020													
Profit for the year		–	–	–	–	–	–	–	–	–	537,024	3,298	540,322
Other comprehensive income	12	–	–	–	–	–	6,795	–	(4,840)	–	–	–	1,955
Total comprehensive income		–	–	–	–	–	6,795	–	(4,840)	–	537,024	3,298	542,277
Dividends approved in respect of the previous year	34(b)(ii)	–	–	–	–	–	–	–	–	–	(134,091)	–	(134,091)
Transfer to reserve	34(e)(vi)	–	–	–	–	–	–	–	–	182,237	(182,237)	–	–
Exercise of share options	34(d)(ii)	492	45,946	–	(8,517)	–	–	–	–	–	–	–	37,921
Repurchase of own shares	34(c)	(72)	(8,932)	72	–	–	–	–	–	–	–	–	(8,932)
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	(19,412)	19,412	–	–
Balance at 31 December 2020		46,186	2,066,883	564	61,524	91,925	(52,017)	–	53,570	837,422	2,364,167	170,085	5,640,309

The notes on pages 106 to 193 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (Expressed in Renminbi)

		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	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	34(b)(ii)	–	–	–	–	–	–	–	–	–	(90,684)	–	(90,684)
Transfer to reserve	34(e)(vi)	–	–	–	–	–	–	–	–	75,799	(75,799)	–	–
Exercise of share options	34(d)(ii)	524	45,767	–	(5,805)	–	–	–	–	–	–	–	40,486
Equity settled share-based transactions	32	–	–	–	(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

The notes on pages 106 to 193 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2020 (Expressed in Renminbi)

	Note	2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations	27(b)	**1,347,560**	419,010
Tax paid		**(40,146)**	(20,344)
Net cash generated from operating activities		**1,307,414**	398,666
Investing activities			
Payment for purchase of property, plant and equipment		**(476,158)**	(510,367)
Payment for purchase of other financial assets		**(1,000)**	(20,000)
Proceeds from disposal of other financial assets		**718**	–
Payment for lease prepayments		**–**	(22,568)
Proceeds from disposal of property, plant and equipment		**–**	776
Acquisition of subsidiaries, net of cash acquired	27(e)	**(83,437)**	–
Proceeds from time and pledged deposits, net		**375,700**	71,514
Interest received	8(a)	**24,345**	26,450
Dividends received from associates		**–**	1,796
Dividends received from investments in securities	6	**3,580**	4,200
Payment for interest in associates	19	**(6,407)**	(1,537)
Payment for trading securities		**(10,655)**	(1,703)
Proceeds from disposal of trading securities		**3,285**	–
Payment for structured deposits, net		**(850,000)**	–
Proceeds from gains on structured deposits		**16,170**	–
Net cash used in investing activities		**(1,003,859)**	(451,439)

	Note	**2020** **RMB'000**	2019 RMB'000
Financing activities			
Proceeds from interest-bearing borrowings	27(c)	**4,975,897**	3,274,060
Repayment of interest-bearing borrowings	27(c)	**(4,946,811)**	(3,206,106)
Proceeds from other financial liability	31	**350,000**	–
Interest paid		**(151,870)**	(156,931)
Dividends paid to equity shareholders of the Company	34(b)(ii)	**(134,091)**	(90,684)
Proceeds from exercise of share options	34(d)(ii)	**37,921**	40,486
Payment for repurchase of shares	34(c)	**(8,932)**	–
Capital injection by non-controlling shareholders		**–**	7,790
Net cash generated from/(used in) financing activities		**122,114**	(131,385)
Net increase/(decrease) in cash and cash equivalents		**425,669**	(184,158)
Cash and cash equivalents at 1 January		**398,017**	583,235
Effect of foreign exchange rate changes		**3,560**	(1,060)
Cash and cash equivalents at 31 December	27(a)	**827,246**	398,017

The notes on pages 106 to 193 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") and requirements of the Hong Kong Companies Ordinance. These financial statements also comply with 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 amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(d) 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 accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group as at and for the year ended 31 December 2020 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 4.

(d) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, Definition of a Business
- Amendment to IFRS 16, Covid-19-Related Rent Concessions

None of these developments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented in this financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting year except for the amendment to IFRS 16, Covid-19-Related Rent Concessions, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

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 2(d), 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.

3 Significant accounting policies (continued)

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 3(l) or (m) 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 venture (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(h)), 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 (h)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. 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 expected credit loss (ECL) model to such other long-term interests where applicable (see Note 3(h)(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(h)), 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(h)).

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 35(f). These investments are subsequently accounted for as follows, depending on their classification.

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(s)(ii).

3 Significant accounting policies (continued)

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see Note 3(h)).

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(u)).

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:

— Freehold land	not depreciated
— 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.

Construction in progress represents plant and buildings under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 3(h)). 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.

3 Significant accounting policies (continued)

(f) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 3(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 3(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— patents and trademarks	10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(g) 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.

3 Significant accounting policies (continued)

(g) Leased assets (continued)

(i) As a lessee

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.

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(h)(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.

3 Significant accounting policies (continued)

(g) Leased assets (continued)

(i) As a lessee (continued)

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 3(s)(ii).

(h) 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.

3 Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

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).

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)

(h) 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 90 days 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)

(h) 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(s)(iv) 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 recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

3 Significant accounting policies (continued)

(h) 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)

(h) 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.

(i) 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.

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)

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 3(s)) 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(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 3(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 3(s)). 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(k)).

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

(k) 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(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 3(h)(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.

(l) 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(u)).

(m) 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)

(n) 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(h)(i).

(o) Contingent redeemable capital contributions

Contingent redeemable capital contributions are classified as financial liabilities as they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred). The liability is recognised and measured in accordance with the Group's policy for interest-bearing borrowings set out in Note 3(l) and accordingly interests thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(p) 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)

(q) 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)

(q) 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.

(r) 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)

(s) 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) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable.

(iii) 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.

(iv) 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(h)(i)).

3 Significant accounting policies (continued)

(s) Revenue and other income (continued)

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. 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.

(t) 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 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.

(u) 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.

3 Significant accounting policies (continued)

(u) Borrowing costs (continued)

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.

(v) 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).

(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)

(w) 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 Accounting estimates and judgements

Notes 17, 32(c) and 35(f) 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 receivables

The Group estimates the amount of loss allowance for ECLs on trade 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.

4 Accounting estimates and judgements (continued)

(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.

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:

	2020 RMB'000	2019 RMB'000
DS	**2,351,218**	2,215,337
HSS	**775,501**	791,116
Cutting tools	**875,166**	657,094
Titanium alloy	**170,474**	321,709
Trading of goods	**1,048,585**	1,384,617
	5,220,944	5,369,873

The Group's revenue from contracts with customers is recognised at a 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 (2019: one customer) with whom transactions have exceeded 10% of the Group's revenue. In 2020 revenue from trading of goods to this customer amounted to RMB702,303,000 (2019: RMB1,252,362,000) 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 35(a).

5 Revenue and segment reporting (continued)

(a) Revenue (continued)

(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.

(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.

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

(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, financial assets at fair value through profit or loss, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other head office and corporate assets. Segment liabilities include trade and other payables and deferred income attributable to the manufacturing and sales activities of the individual segments with the exception of interest-bearing borrowings, current taxation, deferred tax liabilities, other financial liability and other head office and corporate liabilities.

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

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

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

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

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 2020 and 2019 is set out below.

	Year ended and as at 31 December 2020					
	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	2,351,218	775,501	875,166	170,474	1,048,585	5,220,944
Inter-segment revenue	–	493,172	–	–	–	493,172
Reportable segment revenue	2,351,218	1,268,673	875,166	170,474	1,048,585	5,714,116
Reportable segment profit (adjusted EBIT)	410,079	284,953	103,195	12,981	391	811,599
Reportable segment assets	4,639,627	1,998,369	1,285,545	521,917	7	8,445,465
Reportable segment liabilities	1,018,505	339,601	206,729	71,653	–	1,636,488

	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)

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

Revenue	2020 RMB'000	2019 RMB'000
Reportable segment revenue	**5,714,116**	5,668,091
Elimination of inter-segment revenue	**(493,172)**	(298,218)
Consolidated revenue (Note 5(a))	**5,220,944**	5,369,873

Profit	2020 RMB'000	2019 RMB'000
Reportable segment profit	**811,599**	663,027
Net finance costs	**(127,309)**	(130,186)
Share of losses of associates	**(2,195)**	(544)
Share of profits/(losses) of joint ventures	**3,526**	(6,468)
Unallocated head office and corporate expenses	**(63,804)**	(75,458)
Consolidated profit before taxation	**621,817**	450,371

Assets	2020 RMB'000	2019 RMB'000
Reportable segment assets	**8,445,465**	8,380,578
Interest in associates	**55,573**	53,466
Interest in joint ventures	**28,350**	27,638
Other financial assets	**135,810**	141,500
Deferred tax assets	**44,170**	37,109
Financial assets at fair value through profit or loss	**877,117**	2,765
Pledged deposits	**384,700**	610,400
Time deposits	**350,000**	500,000
Cash and cash equivalents	**827,246**	398,017
Unallocated head office and corporate assets	**49,695**	64,904
Consolidated total assets	**11,198,126**	10,216,377

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

Liabilities	2020 RMB'000	2019 RMB'000
Reportable segment liabilities	**1,636,488**	1,635,848
Interest-bearing borrowings	**3,365,819**	3,251,733
Current taxation	**64,138**	28,122
Deferred tax liabilities	**101,033**	74,652
Other financial liability	**350,000**	–
Unallocated head office and corporate liabilities	**40,339**	22,888
Consolidated total liabilities	**5,557,817**	5,013,243

(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	2020 RMB'000	2019 RMB'000
The PRC	**3,598,844**	3,526,131
North America	**750,489**	587,652
Europe	**591,440**	899,628
Asia (other than the PRC)	**270,904**	319,424
Others	**9,267**	37,038
Total	**5,220,944**	5,369,873

6 Other income

	Note	2020 RMB'000	2019 RMB'000
Government grants	(i)	**18,682**	29,577
Sales of scrap materials		**9,807**	2,063
Reversal of loss allowance for trade and other receivables		**–**	11,973
Net foreign exchange gains		**–**	923
Dividend income from listed securities	(ii)	**3,580**	4,200
Unrealised fair value gains of other financial assets		**–**	6,530
Realised and unrealised gains on structured deposits		**23,759**	–
Net realised and unrealised gains on trading securities		**9,393**	–
Others		**5,208**	629
		70,429	55,895

Note:

(i) The subsidiaries of the Group, located in the PRC collectively received unconditional grants amounting to RMB11,866,000 (2019: RMB24,298,000) from the local government to reward their contribution to the local economy and encourage technology innovation. The Group also recognised amortisation of government grants related to assets of RMB6,816,000 (2019: RMB5,279,000) during the year ended 31 December 2020 (see Note 30).

(ii) The Group received dividends totalling RMB3,580,000 (2019: RMB4,200,000) from listed equity investments (see Note 21).

7 Other expenses

	2020 RMB'000	2019 RMB'000
Provision of loss allowance for trade and other receivables	**6,081**	–
Net losses on disposal of property, plant and equipment	**2**	217
Net foreign exchange losses	**23,723**	–
Charitable donations	**3,205**	676
Net realised and unrealised losses on trading securities	**–**	420
Unrealised fair value changes of other financial assets	**1,892**	–
Others	**521**	677
	35,424	1,990

8 Profit before taxation

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

(a) Net finance costs

	2020 RMB'000	2019 RMB'000
Interest income	**(24,345)**	(26,450)
Finance income	**(24,345)**	(26,450)
Interest on bank loans	**172,284**	181,904
Less: interest expenses capitalised into property, plant and equipment under construction*	**(20,630)**	(25,268)
Finance expenses	**151,654**	156,636
Net finance costs	**127,309**	130,186

* The borrowing costs have been capitalised at a rate of 5.23% per annum (2019: 5.00%).

(b) Staff costs

	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	**242,008**	239,735
Contributions to defined contribution retirement plans	**25,106**	36,101
Equity-settled share-based payment expenses (Note 32)	**–**	4,258
	267,114	280,094

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	2020 RMB'000	2019 RMB'000
Cost of inventories*	23(b)	**4,006,964**	4,350,214
Depreciation of property, plant and equipment	14	**265,788**	239,555
Depreciation of lease prepayments (right-of-use assets)	15	**2,935**	2,843
Amortisation of intangible assets	16	**158**	–
Provision/(reversal) of loss allowance for trade and other receivables		**6,081**	(11,973)
Provision of write-down of inventories	23(b)	**9,461**	6,747
Auditor's remuneration			
— audit services		**2,850**	2,650
— other services		**1,000**	–

* Cost of inventories includes amounts relating to staff costs, depreciation expenses and write-down of inventories, which are also included in the respective total amounts disclosed separately above or in Note 8(b) for each of these types of expenses.

9 Income tax in the consolidated statement of profit or loss

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

	2020 RMB'000	2019 RMB'000
Current tax		
Provision for PRC taxes (Note 33(a))	**77,328**	46,489
(Reversal of)/provision for Hong Kong Profits Tax (Note 33(a))	**(1,267)**	1,860
Provision for Thailand Corporate Income Tax (Note 33(a))	**101**	–
	76,162	48,349
Deferred tax		
Origination and reversal of temporary differences	**5,333**	(1,996)
	81,495	46,353

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 Corporate 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.

Jiangsu Tiangong Tools Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe"), Jiangsu Weijian Tools Technology Company Limited ("Weijian Tools") and Jiangsu Tiangong Technology Company Limited ("TG Tech") are subject to a preferential income tax rate of 15% in 2020 available to enterprises which qualify as a High and New Technology Enterprise (2019: 15%).

Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools") is subject to a preferential income tax rate of 15% in 2020 available to enterprises which qualify as a High and New Technology Enterprise (2019: 25%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2019: 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) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong are liable to Hong Kong Profits Tax at a rate of 16.5% (2019: 16.5%) during the year ended 31 December 2020.

(iv) Pursuant to the income tax rules and regulations of Thailand, the Group's subsidiaries in Thailand are liable to Thailand Corporate Income Tax at a rate of 20%.

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

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

	2020 RMB'000	2019 RMB'000
Profit before taxation	**621,817**	450,371
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2019: 25%)	**155,454**	112,593
Effect of preferential tax rates	**(62,646)**	(44,004)
Effect of different tax rates	**(222)**	1,302
Effect of change in tax rates	**(171)**	–
Tax effect of unused tax losses not recognised	**38**	3,139
Tax effect of previously unrecognised tax losses now utilised	**(2,735)**	–
Tax effect of non-deductible expenses	**6,629**	1,993
Tax effect of non-taxable income	**(682)**	(865)
Provision of withholding tax on dividends	**13,897**	4,000
Provision of withholding tax arising from intra-group reorganisation	**9,935**	–
Tax effect of bonus deduction for research and development expenses	**(29,475)**	(24,849)
Over-provision in respect of prior year	**(8,527)**	(6,956)
Actual tax expense	**81,495**	46,353

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:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	2020 Total RMB'000
Executive directors						
Zhu Xiaokun	–	206	–	490	–	696
Wu Suojun	–	222	7	436	–	665
Yan Ronghua	–	180	7	167	–	354
Jiang Guangqing	–	177	4	128	–	309
Independent non-executive directors						
Wang Xuesong	81	–	–	–	–	81
Gao Xiang	36	–	–	–	–	36
Lee Cheuk Yin, Dannis	81	–	–	–	–	81
Total	198	785	18	1,221	–	2,222

10 Directors' emoluments (continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000 (Note)	2019 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

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(p)(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 Report of Directors and Note 32.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2019: one) is a director whose emoluments are disclosed in Note 10. The aggregate of the emoluments in respect of the other four (2019: four) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	**2,119**	2,230
Share-based payments	**–**	256
Discretionary bonuses	**1,322**	1,178
Contributions to retirement benefit schemes	**26**	47
	3,467	3,711

The emoluments of the four (2019: four) individuals with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 Number of individuals
HKD nil to HKD1,000,000	**3**	2
HKD1,000,001 to HKD2,000,000	**1**	2

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 2020			
Before-tax amount	**(4,080)**	**6,795**	**2,715**
Tax expense	**(760)**	**–**	**(760)**
Net-of-tax amount	**(4,840)**	**6,795**	**1,955**
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

(Expressed in Renminbi 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 RMB537,024,000 (2019: RMB395,146,000) and the weighted average of 2,567,069,162 ordinary shares (2019: 2,539,417,170 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2020	2019
Issued ordinary shares at 1 January	**2,569,050,000**	2,539,050,000
Effect of repurchase of shares	**(2,144,789)**	–
Effect of exercise of share options (Note 32)	**163,951**	367,170
Weighted average number of ordinary shares at 31 December	**2,567,069,162**	2,539,417,170

(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 RMB537,024,000 (2019: RMB395,146,000) and the weighted average number of ordinary shares of 2,567,069,162 shares (2019: 2,549,626,341 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2020	2019
Weighted average number of ordinary shares at 31 December	**2,567,069,162**	2,539,417,170
Effect of equity settled share-based transactions (Note 32)	**–**	10,209,171
Weighted average number of ordinary shares (diluted) at 31 December	**2,567,069,162**	2,549,626,341

14 Property, plant and equipment

	Freehold land RMB'000	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
Balance at 1 January 2019	–	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	–	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
Business combination (Note 39)	–	41,988	15,257	–	4,237	–	61,482
Additions	15,064	792	42,737	697	687	416,181	476,158
Transfers	–	(336,039)	667,583	(3,292)	(14,020)	(314,232)	–
Disposals	–	–	(9,188)	(692)	(6)	–	(9,886)
Exchange adjustment	175	–	–	–	(2)	–	173
Balance at 31 December 2020	15,239	1,067,189	4,570,996	8,049	52,165	456,348	6,169,986
Accumulated depreciation:							
Balance at 1 January 2019	–	(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)
Charge for the year	–	(46,803)	(213,992)	(1,236)	(3,757)	–	(265,788)
Transfers	–	28,580	(42,656)	2,412	11,664	–	–
Written back on disposals	–	–	7,121	398	–	–	7,519
Balance at 31 December 2020	–	(388,366)	(1,603,926)	(3,797)	(37,351)	–	(2,033,440)
Net book value:							
At 31 December 2020	15,239	678,823	2,967,070	4,252	14,814	456,348	4,136,546
At 31 December 2019	–	990,305	2,500,208	5,965	16,011	354,399	3,866,888

15 Lease prepayments

	RMB'000
Cost:	
At 1 January 2019	114,254
Additions	22,568
At 31 December 2019	136,822
Business combination (Note 39)	37,158
At 31 December 2020	173,980
Accumulated depreciation:	
At 1 January 2019	(20,626)
Charge for the year	(2,843)
At 31 December 2019	(23,469)
Charge for the year	(2,935)
At 31 December 2020	(26,404)
Net book value:	
At 31 December 2020	147,576
At 31 December 2019	113,353

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

Right-of-use assets

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

	2020 RMB'000	2019 RMB'000
Lease prepayments, carried at depreciated cost in the PRC, with remaining lease term of between 10 and 50 years	**147,576**	113,353

15 Lease prepayments (continued)

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

	2020 **RMB'000**	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Lease prepayments	**2,935**	2,843
Expenses relating to short-term leases and low-value assets	**255**	502

During the year ended 31 December 2020, additions to right-of-use assets were RMB nil (2019: RMB22,568,000). Details of total cash outflows for leases are set out in Note 27(d).

16 Intangible assets

	Patents and trademarks RMB'000
Cost:	
At 31 December 2019 and 1 January 2020	–
Business combination (Note 39)	19,000
At 31 December 2020	19,000
Accumulated amortisation:	
At 31 December 2019 and 1 January 2020	–
Charge for the year	(158)
At 31 December 2020	(158)
Net book value:	
At 31 December 2020	18,842
At 31 December 2019	–

17 Goodwill

	2020 RMB'000	2019 RMB'000
Cost:		
Balance at 1 January and 31 December	**21,959**	21,959
Accumulated impairment losses:		
Balance at 1 January and 31 December	**–**	–
Carrying amount:		
At 1 January and 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:

	2020 RMB'000	2019 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% (2019: 5%–10%), a pre-tax discount rate of 9.8% (2019: 9.0%) and a gross margin of 15%–20% (2019: 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 amount of the CGU is higher than its carrying amount based on value-in-use calculations. Accordingly, no impairment of goodwill is recognised in the consolidated statement of profit or loss.

(Expressed in Renminbi unless otherwise indicated)

18 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		Issued and fully paid-up/ registered capital	Principal activity
		Direct	Indirect		
China Tiangong Company Limited	British Virgin Islands, 14 August 2006	100%	–	USD50,000/ 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%	RMB786,155,188/ RMB786,155,188	Manufacture and sale of die 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
Tiangong Development Hong Kong Company Limited ("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	The PRC, 5 March 2012	–	100%	RMB5,000,000/ RMB5,000,000	Research and development of alloy and steel products
Weijian Tools (Note 39)	The PRC, 29 May 2013	–	100%	RMB46,705,425/ RMB52,195,485	Manufacture and sales of high speed steel
Jiangsu Tiangong International Trading Company Limited	The PRC, 6 March 2014	–	100%	RMB20,000,000/ RMB50,000,000	Trading of goods

(Expressed in Renminbi unless otherwise indicated)

18 Interests in subsidiaries (continued)

Name of company	Place and date of incorporation	Proportion of ownership interest		Issued and fully paid-up/ registered capital	Principal activity
		Direct	Indirect		
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
Precision Tools	The PRC, 25 January 2016	–	100%	HKD15,000,000/ HKD15,000,000	Research and development, manufactory and sale of cutting tools related products
Danyang Taifeng Precision Machinery Tools Company Limited	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	The PRC, 9 March 2017	–	100%	RMB534,693,445/ RMB535,000,000	Investment management and advisory related services
Tiangong Precision Tools Company Limited	British Virgin Islands, 12 January 2018	100%	–	–/ USD50,000	Investment holding
Tiangong Precision Tools (Hong Kong) Company Limited	Hong Kong, 7 February 2018	–	100%	–/ HKD1	Investment holding and trading of cutting tools
Tiangong Special Steel Company Limited	Thailand, 16 August 2019	–	99%	Thai Baht ("THB")100,000,000/ THB100,000,000	Trading of special steel
Changzhou Junrui Tools Company Limited	The PRC, 24 October 2019	–	100%	RMB1,500,000/ RMB1,500,000	Sale of cutting tools related products

(Expressed in Renminbi unless otherwise indicated)

18 Interests in subsidiaries (continued)

Name of company	Place and date of incorporation	Proportion of ownership interest		Issued and fully paid-up/ registered capital	Principal activity
		Direct	Indirect		
Tiangong Precision Tools (Thailand) Company Limited	Thailand, 25 October 2019	–	100%	THB101,890,887/ THB270,000,000	Production and sale of cutting tools and related products
TG Special Steel USA Co., Ltd.	the United States, 12 May 2020	–	100%	–/ USD10,000	Trading of special steel
Guiyang Tiancheng Business Management Co., Ltd.	the PRC, 29 July 2020	–	51%	–/ RMB10,000,000	Business management and related advisory services
Jiangsu Tiangong New Materials Company Limited ("JS TG New Materials")	the PRC, 29 September 2020	–	100%	RMB200,000,000/ RMB200,000,000	Investment holding
Danyang Tianfa Forging Company Limited (Note)	The PRC, 11 October 2000	–	–	–	Precision forging and sale of high speed steel

Note:

Danyang Tianfa Forging Company Limited completed its deregistration on 9 November 2020.

18 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.

	2020 RMB'000	2019 RMB'000
NCI percentage	**25.97%**	25.97%
Current assets	**603,029**	605,507
Non-current assets	**120,332**	130,870
Current liabilities	**(56,769)**	(79,365)
Non-current liabilities	**(17,219)**	(20,498)
Net assets	**649,373**	636,514
Carrying amount of NCI	**164,320**	160,980
Revenue	**182,030**	388,565
Profit for the year	**12,119**	53,315
Total comprehensive income	**12,119**	53,315
Profit allocated to NCI	**3,147**	9,524
Dividend paid to NCI	**–**	–
Cash flows from operating activities	**58,118**	8,350
Cash flows from investing activities	**72,890**	(21,820)
Cash flows from financing activities	**–**	–

(Expressed in Renminbi unless otherwise indicated)

19 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	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activity
					Group's effective interest	Held by the Company	Held by a subsidiary	
Xinzhenggong Company Limited ("XZG")	(i)	Incorporated	Taiwan	Taiwan new dollars ("TWD") 200,000,000	20.83%	–	20.83%	Sale of special steel related products
SB Specialty Metals Holdings LLC ("SBSMH")	(ii)	Incorporated	United States of America	USD8,625,000	19.75%	–	19.75%	Sale of special steel related products
Fusion TG Canada Inc ("TGC")	(iii)	Incorporated	Canada	Canada dollars ("CAD") 6,300,000	20%	20%	–	Sale of special steel related products
Jiangsu Ningxing Tiangong Mould Technology Company Limited ("JS NXTG")	(iv)	Incorporated	The PRC	RMB10,000,000	30%	–	30%	Sale of special steel related products
Shenzhen 51 Mocai Technology Company Limited ("51 Mocai")	(v)	Incorporated	The PRC	RMB50,000,000	10%	–	10%	Sale of special steel related products
Aceros T&C Company Limited ("ATC")	(vi)	Incorporated	Mexico	–	15%	–	15%	Sale of special steel related products
Kushan Tianzhong New Materials Technology Co., Ltd ("TZNMT")	(vii)	Incorporated	The PRC	RMB2,800,000	40%	–	40%	Sale of special steel related products
Tiantai Mould Technology (Kunshan) Co., Ltd ("TTMT")	(viii)	Incorporated	The PRC	RMB2,000,000	40%	–	40%	Sale of special steel related products
Jiangsu Tianrun Huafa Logistics Company Limited ("Tianrun Huafa")	(ix)	Incorporated	The PRC	–	–	–	–	Logistics and freight

19 Interest in associates (continued)

Note:

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

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

(iii) TGC is the sole distributor of the Group's products in Canada. During 2020, the Company acquired an additional 5% of shareholding from the controlling shareholder of TGC at a consideration of RMB1,607,000.

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

(v) 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.

(vi) On 22 November 2016, TG Tools formed 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 2020, 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.

(vii) On 10 December 2020, TG Aihe acquired 40% equity interest in TZNMT from two individuals and a related party company controlled by the ultimate controlling shareholder of the Group. TZNMT is principally engaged in downstream processing and distribution of special steel.

(viii) On 1 September 2020, TG Aihe formed an associate TTMT, with a third-party steel moulding company in the PRC. TTMT is engaged in downstream processing and distribution of special steel.

(ix) On 9 November 2020, Tianrun Huafa completed its deregistration.

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:

	2020 **RMB'000**	2019 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**55,573**	53,466

	2020 **RMB'000**	2019 RMB'000
Aggregate amounts of the Group's share of those associates'		
— Loss from continuing operations	**(2,195)**	(544)
— Other comprehensive income	**(2,105)**	2,364
Total comprehensive income	**(4,300)**	1,820

(Expressed in Renminbi unless otherwise indicated)

20 Interest in joint ventures

Details of the Group's interest in joint ventures as at 31 December 2020, 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	Proportion of ownership interest			Principal activity
					Group's effective interest	Held by the Company	Held by a subsidiary	
TG Korea Company Limited ("TG Korea")	(i)(vi)	Incorporated	The Republic of Korea	USD1,000,000	70%	–	70%	Sale of special steel related products
TGK Special Steel PVT Limited ("TGK")	(ii)	Incorporated	India	USD2,000,000	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	Czech Koruna ("CZK") 26,140,000	50%	–	50%	Sale of special steel related products
Five Star Special Steel Europe S.R.L ("FSS")	(iv)(vi)	Incorporated	Italy	EUR100,000	60%	–	60%	Sale of special steel related products
TG Middle East Celik San Ltd. ("TGME")	(v)	Incorporated	Turkey	EUR1,000,000	50%	–	50%	Sale of special steel related products

Note:

(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% equity interests in TG Korea and FSS, management of the Group considers 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.

20 Interest in joint ventures (continued)

Aggregate information of joint ventures that are not individually material:

	2020 RMB'000	2019 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**28,350**	27,638

	2020 RMB'000	2019 RMB'000
Aggregate amount of the Group's share of those joint ventures'		
— Profits/(losses) from continuing operations	**3,526**	(6,468)
— Other comprehensive income	**(2,814)**	293
Total comprehensive income	**712**	(6,175)

21 Other financial assets

	Note	2020 RMB'000	2019 RMB'000
Equity securities designated at FVOCI (non-recycling)			
— Listed in the PRC	(i)	**102,950**	107,520
— Unlisted equity securities	(ii)	**7,940**	7,450
Financial asset measured at fair value through profit or loss (FVPL)			
— Unlisted units in investment funds		**24,920**	26,530
		135,810	141,500

Note:

(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 RMB3,580,000 were received from these investments during the year ended 31 December 2020 (2019: RMB4,200,000).

(ii) The unlisted equity securities is shares in 廈門創豐翌致投資管理合夥企業(有限合夥) (Xiamen Tronfund Yizhi Investment Management Partnership*), a partnership incorporated in the PRC and shares in 南京小木馬科技有限公司 (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 2020 (2019: RMB nil).

22 Financial assets at fair value through profit or loss

	Note	2020 RMB'000	2019 RMB'000
Trading securities (Note 35(f)(i))	(i)	**19,528**	2,765
Structured deposits (Note 35(f)(i))	(ii)	**857,589**	–
		877,117	2,765

Note:

(i) The trading securities are the Group's portfolio of listed equity securities in the capital markets of the PRC and Hong Kong. The Group measured these listed equity securities at FVPL, as the investments are held for trading purposes.

(ii) The structured deposits are the Group's subscriptions for wealth management products offered by financial institutions in the PRC. There are no fixed or determinable returns of these structured deposits.

23 Inventories

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

	2020 RMB'000	2019 RMB'000
Raw materials	**159,384**	53,749
Work in progress	**873,208**	798,869
Finished goods	**655,779**	882,046
	1,688,371	1,734,664

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

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	**3,997,503**	4,343,467
Provision of write-down of inventories	**9,461**	6,747
	4,006,964	4,350,214

24 Trade and other receivables

	2020 RMB'000	2019 RMB'000
Trade receivables	**1,253,802**	1,305,225
Bills receivable	**850,660**	948,981
Less: loss allowance	**(87,295)**	(93,710)
Net trade and bills receivable	**2,017,167**	2,160,496
Prepayments	**338,813**	408,771
Non-trade receivables	**130,400**	139,351
Less: loss allowance	**(4,514)**	–
Net prepayments and non-trade receivables	**464,699**	548,122
	2,481,866	2,708,618

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

The bills receivable held by the Group are achieved by both collection of contractual cash flows and sales, which are measured at fair value through other comprehensive income. As at 31 December 2020, bills receivable of RMB850,660,000 (2019: RMB948,981,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these bills receivable at fair value through other comprehensive income were insignificant during the year. Historically, the Group had experienced no significant credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle trade payables.

As at 31 December 2020, the Group endorsed certain bills receivable with a total carrying amount of RMB334,638,000 (2019: RMB122,975,000) to suppliers for settling trade payables of the same amount on a full recourse basis. In the opinion of the directors, the Group has not transferred the substantial risks and rewards relating to these bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled.

24 Trade and other receivables (continued)

As at 31 December 2020, the Group endorsed certain bills receivable to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at 31 December 2020, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB392,526,000 (2019: RMB547,105,000).

Trade receivables of RMB160,835,000 (2019: RMB107,037,000) have been pledged to a bank as security for the Group's bank loans as disclosed in Note 28.

Ageing analysis

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

	2020 **RMB'000**	2019 RMB'000
Within 3 months	**1,551,164**	1,606,362
4 to 6 months	**150,412**	238,911
7 to 12 months	**152,501**	213,164
1 to 2 years	**160,480**	100,158
Over 2 years	**2,610**	1,901
	2,017,167	2,160,496

Trade 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 receivables are set out in Note 35(a).

25 Pledged deposits

As at 31 December 2020, bank deposits of RMB384,700,000 (2019: RMB610,400,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities (as described in Note 28). 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.

26 Time deposits

As at 31 December 2020, time deposits of RMB350,000,000 (2019: RMB500,000,000) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

27 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

As at 31 December 2020 and 2019, 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.

	2020 **RMB'000**	2019 RMB'000
Cash at bank and on hand	**827,246**	398,017

27 Cash and cash equivalents (continued)

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

	Note	2020 RMB'000	2019 RMB'000
Profit before taxation		**621,817**	450,371
Adjustments for:			
Depreciation of property, plant and equipment	8(c)	**265,788**	239,555
Depreciation of lease prepayments	8(c)	**2,935**	2,843
Amortisation of intangible assets	8(c)	**158**	–
Interest income	8(a)	**(24,345)**	(26,450)
Interest on bank loans	8(a)	**151,654**	156,636
Net losses on disposal of property, plant and equipment	7	**2**	217
Dividends received from listed securities	6	**(3,580)**	(4,200)
Unrealised fair value changes of other financial assets	6/7	**1,892**	(6,530)
Net realised and unrealised (gains)/losses on trading securities	6/7	**(9,393)**	420
Realised and unrealised gains on structured deposits	6	**(23,759)**	–
Provision/(reversal) of loss allowance for trade and other receivables	8(c)	**6,081**	(11,973)
Share of losses of associates	19	**2,195**	544
Share of (profits)/losses of joint ventures	20	**(3,526)**	6,468
Equity settled share-based payment expenses	8(b)	**–**	4,258
Operating profit before changes in working capital		**987,919**	812,159
Change in inventories		**69,708**	259,623
Change in trade and other receivables		**296,163**	(344,574)
Change in trade and other payables		**(6,434)**	(310,299)
Change in deferred income		**204**	2,101
Cash generated from operations		**1,347,560**	419,010

27 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 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 and 1 January 2020	3,251,733
Business combination (Note 39)	85,000
Proceeds from interest-bearing borrowings	4,975,897
Repayment of interest-bearing borrowings	(4,946,811)
Changes from financing cash flows	114,086
At 31 December 2020	3,365,819

27 Cash and cash equivalents (continued)

(d) Total cash outflow for leases

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

	2020 RMB'000	2019 RMB'000
Within operating cash flows	**255**	502
Within investing cash flows	**–**	22,568
	255	23,070

(e) Net cash outflow arising from the acquisition of a subsidiary

The recognised amounts of assets acquired and liabilities at the date of acquisition of the subsidiary comprise the following:

	RMB'000
Property, plant and equipment (Note 14)	61,482
Lease prepayments (Note 15)	37,158
Intangible assets (Note 16)	19,000
Trade and other receivables	45,577
Cash and cash equivalents	25,259
Deferred tax assets (Note 33(b))	575
Inventories	23,415
Trade and other payables	(4,968)
Interest-bearing borrowings	(85,000)
Deferred tax liabilities (Note 33(c))	(13,802)
Total consideration paid in cash	108,696
Less: cash of subsidiary acquired	(25,259)
	83,437

28 Interest-bearing borrowings

	Note	2020 RMB'000	2019 RMB'000
Current			
Secured bank loans	(i)	**456,564**	392,087
Unsecured bank loans	(ii)	**1,466,974**	1,421,640
Current portion of non-current unsecured bank loans		**850,444**	799,118
		2,773,982	2,612,845
Non-current			
Unsecured bank loans	(iii)	**1,442,281**	1,438,006
Less: Current portion of non-current unsecured bank loans		**(850,444)**	(799,118)
		591,837	638,888
		3,365,819	3,251,733

Note:

(i) The current secured bank loans are secured by pledged deposits, certain trade receivables and sales contracts at annual interest rates ranging from 0.75% to 5.66% (2019: 0.70% to 3.92%) per annum.

(ii) Current unsecured bank loans carry interest at annual rates ranging from 0.90% to 5.22% (2019: 1.00% to 5.22%) per annum and are all repayable within one year.

Certain current unsecured bank loans of RMB45,000,000 (2019: RMB nil) were guaranteed by a third party company, which is controlled by one of the former ultimate non-controlling shareholders of Weijian Tools at 31 December 2020.

(iii) Non-current unsecured bank loans carry interest at annual rates ranging from 2.70% to 5.25% (2019: 2.92% to 5.15%) per annum.

28 Interest-bearing borrowings (continued)

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

	2020 RMB'000	2019 RMB'000
Within 1 year	**850,444**	799,118
Over 1 year but less than 2 years	**516,837**	500,545
Over 2 years but less than 5 years	**75,000**	138,343
	1,442,281	1,438,006

As at 31 December 2019 and 2020, 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 covenant, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with covenants. Further details of the Group's management of liquidity risk are set out in Note 35(b).

29 Trade and other payables

	2020 RMB'000	2019 RMB'000
Trade and bills payable	**1,423,598**	1,370,633
Contract liabilities	**37,351**	87,694
Non-trade payables and accrued expenses	**157,796**	142,531
	1,618,745	1,600,858

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

	2020 RMB'000	2019 RMB'000
Within 3 months	**695,190**	750,743
4 to 6 months	**200,952**	434,420
7 to 12 months	**477,115**	128,327
1 to 2 years	**15,044**	22,191
Over 2 years	**35,297**	34,952
	1,423,598	1,370,633

30 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. During the year ended 31 December 2020, the Group received RMB7,020,000 conditional government grants (2019: RMB7,380,000) to support the capital investments of the Group. As at 31 December 2020, the carrying amount of deferred income in respect of government grants after amortisation (Note 6(i)) amounted to RMB58,082,000 (2019: RMB57,878,000).

31 Other financial liability

The analysis of the carrying amount of other financial liability is as follows:

	2020 **RMB'000**
Contingent redeemable capital contributions in a subsidiary	**350,000**

On 28 December 2020, the Company, TG Tools, TG New Materials, CTCL (HK), Precision Tools, TG Aihe, Weijian Tools, JS TG New Materials and TG Development and certain third party investors (the "Investors") entered into an investment agreement, pursuant to which the Investors will invest RMB1,415,000,000 to acquire 16.65% of the equity interest in TG Tools (collectively referred as "the Investment in TG Tools"). The Investors are entitled to the same voting rights and dividend rights as other equity holders of TG Tools, whereas certain special rights in TG Tools including redemption, anti-dilution and preferential liquidation rights are granted to the Investors. As at 31 December 2020, the Group received such capital contributions of RMB350,000,000 from two of the Investors.

At the date of issuance, the Investment in TG Tools is initially recognised at fair value and is carried at amortised cost for subsequent periods. Interest on the Investment in TG Tools is calculated using the effective interest method and recognised in the consolidated statement of profit or loss.

(Expressed in Renminbi unless otherwise indicated)

32 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 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.

(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 (Lot A)	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 (Lot B)	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 (Lot A)	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 (Lot B)	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		

(Expressed in Renminbi unless otherwise indicated)

32 Equity settled share-based transactions (continued)

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

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 2020 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 2020 represents an increase of 50% or more as compared to that of the year ended 31 December 2020, the vesting date will be 31 March 2020 for the rest of the total share options granted.

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

	2020		2019	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HKD1.500**	**30,000,000**	HKD1.575	82,147,000
Granted during the year	**–**	**–**	–	–
Exercised during the year	**HKD1.500**	**(30,000,000)**	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
Exercisable at the end of the year	**–**	**–**	–	–

The weighted average share price at the date of exercise of the share options exercised during the year was HKD3.350 (2019: HKD2.980).

There were no share options outstanding as at 31 December 2020. The share options outstanding as at 31 December 2019 had an exercise price of HKD1.500 and average remaining contractual life of 1.00 year.

(Expressed in Renminbi unless otherwise indicated)

32 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 options granted.

33 Income tax in the consolidated statement of financial position

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

	2020 RMB'000	2019 RMB'000
At the beginning of the year	**28,122**	117
Provision for PRC taxes for the year	**77,328**	46,489
(Reversal)/provision for Hong Kong Profits Tax for the year	**(1,267)**	1,860
Provision for Thailand Corporate Income Tax for the year	**101**	–
Hong Kong Profits Tax paid	**(7,589)**	–
Thailand Corporate Income Tax paid	**(178)**	–
PRC taxes paid	**(32,379)**	(20,344)
At the end of the year	**64,138**	28,122

(b) Deferred tax assets recognised and not recognised

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

Deferred tax arising from:	Deductible tax losses RMB'000	Unrealised profits RMB'000	Loss allowance for trade and other receivables RMB'000	Write-down of inventories RMB'000	Total RMB'000
At 1 January 2019	1,322	5,144	15,674	3,055	25,195
Credited/(charged) to profit or loss	3,086	9,021	(1,524)	1,331	11,914
At 31 December 2019 and 1 January 2020	4,408	14,165	14,150	4,386	37,109
Business combination (Note 39)	389	–	186	–	575
(Charged)/credited to profit or loss	(214)	5,187	546	967	6,486
At 31 December 2020	4,583	19,352	14,882	5,353	44,170

In accordance with the accounting policy set out in Note 3(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB13,881,000 (2019: RMB24,669,000) 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.

33 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 RMB'000	Deductible capitalised borrowing costs RMB'000	Revaluation of equity securities RMB'000	Fair value adjustment arising from business combination RMB'000	Total RMB'000
At 1 January 2019	4,704	48,880	8,684	–	62,268
Charged to profit or loss	4,000	4,286	1,632	–	9,918
Credited to reserves	–	–	2,466	–	2,466
At 31 December 2019 and 1 January 2020	8,704	53,166	12,782	–	74,652
Business combination (Note 39)	–	–	–	13,802	13,802
Charged/(credited) to profit or loss	10,295	2,067	(473)	(70)	11,819
Credited to reserves	–	–	760	–	760
At 31 December 2020	18,999	55,233	13,069	13,732	101,033

As at 31 December 2020, deferred tax liabilities of RMB18,999,000 (2019: RMB8,704,000) 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 RMB146,293,000 (2019: RMB206,089,000) 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.

34 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 2019		45,242	1,984,102	492	23,660	5,849	(470,407)	1,588,938
Changes in equity for 2019:								
Total comprehensive income for the year		–	–	–	–	102	15,583	15,685
Dividends approved in respect of the previous year	34(b)(ii)	–	–	–	–	–	(90,684)	(90,684)
Exercise of share options	34(d)(ii)	524	45,767	–	(5,805)	–	–	40,486
Equity settled share-based transactions	32	–	–	–	(6,143)	–	10,401	4,258
Balance at 31 December 2019 and 1 January 2020		45,766	2,029,869	492	11,712	5,951	(535,107)	1,558,683
Total comprehensive income for the year		–	–	–	–	(118)	(68,906)	(69,024)
Dividends approved in respect of the previous year	34(b)(ii)	–	–	–	–	–	(134,091)	(134,091)
Exercise of share options	34(d)(ii)	492	45,946	–	(8,517)	–	–	37,921
Repurchase of own shares	34(c)	(72)	(8,932)	72	–	–	–	(8,932)
Balance at 31 December 2020	38	46,186	2,066,883	564	3,195	5,833	(738,104)	1,384,557

34 Capital, reserves and dividends (continued)

(b) Dividends

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

	2020 RMB'000	2019 RMB'000
Dividend proposed after the end of the reporting period of RMB0.0732 per ordinary share (2019: RMB0.0545 per ordinary share)	**187,958**	138,301

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:

	2020 RMB'000	2019 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0545 per ordinary share (2019: RMB0.0357 per ordinary share)	**134,091**	90,684

In respect of the final dividend for the year ended 31 December 2019, there is a difference of RMB4,210,000 (2018: RMB92,000) between the final dividend disclosed in the 2019 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 2019 annual result announcement and the actual exchange rate applied on the date of payment.

(c) Purchase of own shares

During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregate price paid RMB'000
June 2020	4,050,000	2.28	2.15	8,932
				8,932

34 Capital, reserves and dividends (continued)

(c) Purchase of own shares (continued)

All the repurchased shares were treated as cancelled during the year ended 31 December 2020 and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37 of the Cayman Islands Companies Law, an amount equivalent to the par value of the shares treated as cancelled of RMB72,000 was transferred from share capital to the capital redemption reserve, and the balance of RMB8,932,000 reduced the share premium.

(d) Share capital

(i) Issued and fully paid share capital

Authorised:

	2020 and 2019	
	No. of Shares ('000)	Amount USD '000
Ordinary shares of USD0.0025 each (2019: USD0.0025)	4,000,000	10,000

Ordinary shares issued and fully paid:

	2020			2019		
	No. of shares ('000)	Amount USD '000	RMB equivalent '000	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	**2,569,050**	**6,422**	**45,766**	2,539,050	6,347	45,242
Exercise of share options	**30,000**	**75**	**492**	30,000	75	524
Repurchase of own shares	**–**	**–**	**(72)**	–	–	–
At 31 December	**2,599,050**	**6,497**	**46,186**	2,569,050	6,422	45,766

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 23 November 2020, 29 December 2020 and 30 December 2020, 150,000, 24,292,000 and 5,558,000 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 HKD585,000 (equivalent to RMB492,000 or USD75,000) was credited to share capital and HKD44,415,000 (equivalent to RMB37,429,000) was credited to share premium. RMB8,517,000 was transferred from the capital reserve to the share premium account in accordance with the policy set out in Note 3(p)(ii).

34 Capital, reserves and dividends (continued)

(e) 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 the Group in connection with the acquisition of land use rights and plant in 2007. These waivers of liabilities by the 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(p)(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(t).

34 Capital, reserves and dividends (continued)

(e) 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 tax, 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.

(f) Distributability of reserves

As at 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,328,779,000 (2019: RMB1,494,762,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.0736 per ordinary share (2019: RMB0.0545), amounting to RMB187,958,000 (2019: RMB138,301,000). This dividend has not been recognised as a liability at the end of the reporting period.

(g) 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.

34 Capital, reserves and dividends (continued)

(g) 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 2020, 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 2020 and 2019 were as follows:

	Note	**2020** **RMB'000**	2019 RMB'000
Current liabilities:			
Interest-bearing borrowings	28	**2,773,982**	2,612,845
Non-current liabilities:			
Interest-bearing borrowings	28	**591,837**	638,888
Total debt		**3,365,819**	3,251,733
Add: Proposed dividends	34(b)	**187,958**	138,301
Less: Cash and cash equivalents	27	**(827,246)**	(398,017)
Adjusted net debt		**2,726,531**	2,992,017
Total equity		**5,640,309**	5,203,134
Less: Proposed dividends	34(b)	**(187,958)**	(138,301)
Adjusted capital		**5,452,351**	5,064,833
Adjusted net debt-to-capital ratio		**50%**	59%

35 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% (2019: nil%) and 4% (2019: 9%) 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.

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

(a) Credit risk (continued)

Trade receivables (continued)

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

	2020		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**0.7%**	**705,640**	**4,939**
1–3 months past due	**3.3%**	**155,480**	**5,068**
4–6 months past due	**5.4%**	**95,312**	**5,112**
7–12 months past due	**9.0%**	**108,780**	**9,795**
1–2 years past due	**13.7%**	**146,484**	**20,075**
More than 2 years past due	**100.0%**	**42,106**	**42,106**
		1,253,802	**87,095**

	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

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.

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

(a) Credit risk (continued)

Trade receivables (continued)

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

	2020	2019
	RMB'000	RMB'000
Balance at 1 January	**93,710**	105,868
Amounts written-off during the year	**(7,982)**	(185)
Loss allowance recognised/(reversed) during the year	**1,367**	(11,973)
Balance at 31 December	**87,095**	93,710

The following significant changes in the gross carrying amounts of trade receivables contributed to the decrease in the loss allowance during 2020:

— origination of new trade receivables net of those settled resulted in a decrease in loss allowance of RMB1,522,000 (2019: RMB505,000);

— decrease in days past due resulted in an increase in loss allowance of RMB2,889,000 (2019: a decrease of RMB11,468,000); and

— a write-off of trade receivables with a gross carrying amount of RMB7,982,000 (2019: RMB185,000) resulted in a decrease in loss allowance of RMB7,982,000 (2019: RMB185,000).

(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.

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

(b) Liquidity risk (continued)

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

		2020 Contractual undiscounted cash outflow				
	Note	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Interest-bearing borrowings	28	**2,824,966**	**528,068**	**77,830**	**3,430,864**	**3,365,819**
Trade and other payables	29	**1,618,745**	**–**	**–**	**1,618,745**	**1,618,745**
		4,443,711	**528,068**	**77,830**	**5,049,609**	**4,984,564**

		2019 Contractual undiscounted cash outflow				
	Note	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Interest-bearing borrowings	28	2,686,643	516,780	146,581	3,350,004	3,251,733
Trade and other payables	29	1,600,858	–	–	1,600,858	1,600,858
		4,287,501	516,780	146,581	4,950,862	4,852,591

In addition to the above, the Group was also exposed to liquidity risk arising from the redemption features of other financial liability at 31 December 2020, which are further detailed in Note 31.

35 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.

	2020 Exposure to foreign currencies (expressed in RMB)			2019 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	**407,671**	**407,818**	**36,615**	444,735	428,714	–
Cash and cash equivalents	**4,946**	**39,444**	**1,198**	11,638	16,324	6,657
Trade and other payables	**(40)**	**(927)**	**(20,118)**	(177,695)	–	–
Interest-bearing borrowings	**(233,265)**	**(603,691)**	**(74,921)**	(693,693)	(509,103)	(135,752)
Net exposure arising from recognised assets and liabilities	**179,312**	**(157,356)**	**(57,226)**	(415,015)	(64,065)	(129,095)

35 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.

	2020		2019	
	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%**	**9,058**	5%	(18,006)
EUR	**5%**	**(6,606)**	5%	(5,352)
HKD	**5%**	**(2,865)**	5%	(5,722)

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, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis as for 2019.

35 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 28.

(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:

	2020		2019	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**0.75%–5.66%**	**(877,275)**	0.70%–5.22%	(444,583)
Pledged deposits	**1.35%–1.75%**	**384,700**	1.35%–1.55%	610,400
Time deposits	**1.30%–2.25%**	**350,000**	1.35%–3.70%	500,000
Variable rate instruments				
Interest-bearing borrowings	**0.90%–5.25%**	**(2,488,544)**	1.00%–5.15%	(2,807,150)

(ii) Sensitivity analysis

As at 31 December 2020, 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 RMB21,149,000 (2019: RMB23,861,000).

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 and had been applied to re-measure those financial instruments held by the Group. 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 2019.

35 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 21).

The Group's equity investment listed on the SESH and 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 funds 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 2020, it is estimated that an increase/(decrease) of 10% (2019: 10%) in the relevant stock market index (from listed investments), the price/earning or price/book value ratios of comparable listed companies (for unquoted investments) 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:

	2020			2019		
		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%**	**1,869**	**8,863**	10%	1,990	9,347
Decrease	**(10%)**	**(1,869)**	**(8,863)**	(10%)	(1,990)	(9,347)

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 2019.

35 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 2020 RMB'000	Fair value measurement at 31 December 2020 categorised into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	**54,600**	**54,600**	–	–
— Listed equity securities — NEEQ	**48,350**	–	–	**48,350**
— Unlisted equity securities	**7,940**	–	–	**7,940**
— Unlisted units in investment funds	**24,920**	–	–	**24,920**
Financial assets at fair value through profit or loss:				
— Listed equity securities	**19,528**	**19,528**	–	–
— Unlisted debt securities	**857,589**	–	**857,589**	–
Trade and other receivables:				
— Bills receivable	**850,660**	–	**850,660**	–

35 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 2019 RMB'000	Fair value measurement at 31 December 2019 categorised into 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 securities	7,450	–	–	7,450
— Unlisted units in investment fund	26,530	–	–	26,530
Financial assets at fair value through profit or loss:				
— Listed equity securities	2,765	2,765	–	–
Trade and other receivables:				
— Bills receivable	948,981	–	948,981	–

During the years ended 31 December 2020 and 2019, 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 prices in active markets, and that of unlisted equity securities and unlisted units in investment funds mentioned in Note 21 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.

35 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 year in the balance of these Level 3 fair value measurements are as follows:

	2020 **RMB'000**	2019 RMB'000
Unquoted equity securities and units in investment fund:		
At 1 January	**69,100**	40,324
Payment for purchase of other financial assets	**1,000**	20,000
Proceeds from disposal of other financial assets	**(718)**	–
Net unrealised gains recognised in other comprehensive income during the year	**13,720**	2,246
Unrealised fair value changes of other financial assets during the year	**(1,892)**	6,530
At 31 December	**81,210**	69,100

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 2020 and 31 December 2019.

36 Commitments

Capital commitments outstanding as at 31 December 2020 not provided for in the consolidated financial statements were as follows:

	2020 **RMB'000**	2019 RMB'000
Contracted for	**69,910**	92,792
Authorised but not contracted for	**474,520**	257,995
	544,430	350,787

37 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"), Weijian Tools prior to the business combination as disclosed in Note 39, a company controlled by the controlling shareholder's family member ("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.

37 Material related party transactions (continued)

(b) Transactions with related companies (continued)

(i) Significant related party transactions

	2020 **RMB'000**	2019 RMB'000
Sale of goods to:		
Joint ventures	**252,037**	312,274
Associates	**85,971**	286,286
Weijian Tools	**22,372**	10,829
	360,380	609,389
Purchase of goods from:		
Joint ventures	**367**	–
Associates	**27**	–
Weijian Tools	**–**	3,176
	394	3,176
Lease expenses to:		
Weijian Tools	**616**	56
Acquisition of building and leasehold land from:		
Weijian Tools	**–**	100,000
Acquisition of machinery from:		
Weijian Tools	**–**	15,877
Acquisition of the equity interest in Weijian Tools from:		
Controlling shareholder's family member's company	**90,554**	–
Acquisition of the equity interest in an associate from:		
Controlling shareholder's company	**1,400**	–

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.

37 Material related party transactions (continued)

(b) Transactions with related companies (continued)

(ii) Significant related party balances

	2020 **RMB'000**	2019 RMB'000
Trade and other receivables due from		
Joint ventures	**378,812**	370,417
Associates	**88,876**	53,733
Weijian Tools	**–**	57
	467,688	424,207
Trade and other payables due to		
Associates	**176**	154
Joint ventures	**265**	27
Weijian Tools	**–**	53,285
	441	53,466

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

The related party transactions in respect of lease expenses paid and goods sold to Weijian Tools prior to the business combination, acquisition of the equity interest in Weijian Tools from the controlling shareholder's family member's company and acquisition of the equity interest in an associate from controlling shareholder's company mentioned in Note 37(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. Apart from these transactions, none of the other related party transactions mentioned in Note 37 fall under the definition of a connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38 Company-level statement of financial position

	2020 RMB'000	2019 RMB'000
Non-current assets		
Property, plant and equipment	**11**	11
Interests in subsidiaries	**1,433,447**	1,608,822
Interests in associates	**13,347**	29,371
Other receivables	**25,534**	–
	1,472,339	1,638,204
Current assets		
Cash and cash equivalents	**7,363**	3,629
	7,363	3,629
Current liabilities		
Interest-bearing borrowings	**74,917**	81,118
Trade and other payables	**20,228**	2,032
	95,145	83,150
Net current liabilities	**(87,782)**	(79,521)
Net assets	**1,384,557**	1,558,683
Capital and reserves		
Share capital	**46,186**	45,766
Reserves	**1,338,371**	1,512,917
Total equity	**1,384,557**	1,558,683

39 Business combination

On 5 December 2020, the Group, through its wholly owned subsidiary TG Tools, acquired 100% of the equity interest in Weijian Tools, which is principally engaged in manufacturing and selling of high speed steel at a cash consideration of RMB108,696,000. As at 31 December 2020, the Group owns 100% of the equity interest in Weijian Tools.

The following table summarises the estimated fair value of the assets acquired and liabilities assumed as at the acquisition date:

	Fair value on acquisition RMB'000
Property, plant and equipment (Note 14)	61,482
Lease prepayments (Note 15)	37,158
Intangible assets (Note 16)	19,000
Trade and other receivables	45,577
Cash and cash equivalents	25,259
Deferred tax assets (Note 33(b))	575
Inventories	23,415
Trade and other payables	(4,968)
Interest-bearing borrowings	(85,000)
Deferred tax liabilities (Note 33(c))	(13,802)
Identifiable net assets	108,696
Satisfied by:	
Cash consideration paid	108,696

The fair value of net identifiable assets of the acquiree is determined by the Directors with reference to the valuation performed by an independent valuation firm on the acquisition date.

From the date of acquisition to 31 December 2020, Weijian Tools contributed revenue of RMB6,337,000 and net profit of RMB713,000.

The consolidated revenue and net profit of the Group for the year ended 31 December 2020 would have been RMB5,266,634,000 and RMB536,466,000, respectively had the acquisition been completed as at 1 January 2020.

(Expressed in Renminbi unless otherwise indicated)

40 Immediate and ultimate controlling party

At 31 December 2020, the directors consider the immediate parent and ultimate controlling party of the Group to be Tiangong Holding Company Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

41 Non-adjusting events after the reporting period

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in Note 34(b).

42 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

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 2020 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, Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37, Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022

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				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**5,220,944**	5,369,873	5,021,546	3,898,443	3,376,134
Profit before taxation	**621,817**	450,371	280,568	218,097	130,916
Income tax	**(81,495)**	(46,353)	(13,598)	(43,396)	(14,920)
Profit for the year	**540,322**	404,018	266,970	174,701	115,996
Other comprehensive income/(loss) for the year	**1,955**	14,360	(11,607)	(14,555)	45,713
Attributable to:					
Equity shareholders of the Company	**538,979**	409,452	247,228	154,544	156,284
Non-controlling interests	**3,298**	8,872	8,135	5,602	5,425
Earnings per share (RMB)					
Basic (RMB)	**0.209**	0.156	0.106	0.076	0.050

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**4,588,826**	4,261,913	3,923,593	3,801,667	3,737,020
Current assets	**6,609,300**	5,954,464	6,112,759	4,902,213	4,558,884
Total assets	**11,198,126**	10,216,377	10,036,352	8,703,880	8,295,904
Liabilities					
Non-current liabilities	**750,952**	764,909	1,011,943	917,991	309,029
Current liabilities	**4,806,865**	4,248,334	4,201,449	3,482,924	3,831,441
Total liabilities	**5,557,817**	5,013,243	5,213,392	4,400,915	4,140,470
Equity					
Total equity	**5,640,309**	5,203,134	4,822,960	4,302,965	4,155,434

Note: The results of the Group for the four financial years ended 31 December 2016, 2017, 2018 and 2019 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

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Bank of China Limited
Agricultural Bank of China Limited
The Export-import Bank of China
The Hong Kong and Shanghai Banking Corporation Limited

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