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Tiangong International Company Limited

天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

RMB' million (unless otherwise specified)

	Year ended 31 December 2020	Year ended 31 December 2019	Change
Revenue	**5,220.9**	5,369.9	(2.8%)
Gross profit	**1,214.0**	1,019.7	19.1%
Net profit attributable to equity shareholders of the Company	**537.0**	395.1	35.9%
Basic earnings per share *(RMB)*	**0.209**	0.156	34.0%
Gross profit margin	**23.3%**	19.0%	4.3 ppt
Margin of profit attributable to equity shareholders of the Company	**10.3%**	7.4%	2.9 ppt
Net Assets	**5,640.3**	5,203.1	8.4%
Net Debt [(1)]	**1,803.9**	1,743.3	3.5%
Net Gearing [(2)]	**32.0%**	33.5%	(1.5 ppt)

Notes:

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

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

The board of directors (the "Board") of Tiangong International Company Limited (the "Company") is pleased to announce the audited consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 and the consolidated statement of financial position of the Group as at 31 December 2020, together with the comparative figures for the same period of 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	**2020** ***RMB'000***	2019 *RMB'000*
Revenue	*4*	**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	*5*	**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	*6*	**(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	*7(a)*	**(127,309)**	(130,186)
Share of losses of associates		**(2,195)**	(544)
Share of profits/(losses) of joint ventures		**3,526**	(6,468)
Profit before taxation	*7*	**621,817**	450,371
Income tax	*8*	**(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)*	*9*		
Basic		**0.209**	0.156
Diluted		**0.209**	0.155

Note: Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 12(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Profit for the year	**540,322**	404,018
Other comprehensive income for the year (after tax and reclassification adjustment)		
Items that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (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 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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		**4,136,546**	3,866,888
Lease prepayments		**147,576**	113,353
Intangible assets		**18,842**	–
Goodwill		**21,959**	21,959
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
		4,588,826	4,261,913
Current assets			
Financial assets at fair value through profit or loss		**877,117**	2,765
Inventories		**1,688,371**	1,734,664
Trade and other receivables	*10*	**2,481,866**	2,708,618
Pledged deposits		**384,700**	610,400
Time deposits		**350,000**	500,000
Cash and cash equivalents		**827,246**	398,017
		6,609,300	5,954,464
Current liabilities			
Interest-bearing borrowings		**2,773,982**	2,612,845
Trade and other payables	*11*	**1,618,745**	1,600,858
Current taxation		**64,138**	28,122
Deferred income		**–**	6,509
Other financial liability		**350,000**	–
		4,806,865	4,248,334
Net current assets		**1,802,435**	1,706,130
Total assets less current liabilities		**6,391,261**	5,968,043

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2020

	2020	2019
	RMB'000	*RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**591,837**	638,888
Deferred income	**58,082**	51,369
Deferred tax liabilities	**101,033**	74,652
	750,952	764,909
Net assets	**5,640,309**	5,203,134
Capital and reserves		
Share capital	**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

NOTES

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

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3(a) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION AND DISCLOSURES

(a) 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.

4 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 4(b).

(i) Disaggregation of revenue

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

	2020	2019
	RMB'000	*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 Notes 4(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.

(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 alloy to the titanium industry.
— *Trading of goods*	The trading of goods segment sells general carbon steel products that are not within the Group's production scope.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Chairman (the chief operating decision maker) monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all tangible, intangible assets and current assets with the exception of interest in associates, interest in joint ventures, other financial assets, 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 and other head office and corporate liabilities.

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

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

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	Year ended and as at 31 December 2020					
	DS	**HSS**	**Cutting tools**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**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	HSS	Cutting tools	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	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

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

	2020	2019
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**5,714,116**	5,668,091
Elimination of inter-segment revenue	**(493,172)**	(298,218)
Consolidated revenue *(Note 4(a))*	**5,220,944**	5,369,873

	2020	2019
	RMB'000	*RMB'000*
Profit		
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

	2020	2019
	RMB'000	*RMB'000*
Assets		
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

	2020	2019
	RMB'000	*RMB'000*
Liabilities		
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.

	2020	2019
	RMB'000	*RMB'000*
Revenue		
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

5 OTHER INCOME

		2020	2019
	Note	***RMB'000***	*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

(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.

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

6 OTHER EXPENSES

	2020	2019
	RMB'000	*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

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2020	2019
	RMB'000	*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	2019
	RMB'000	*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	**–**	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.

(c) Other items

	2020 *RMB'000*	2019 *RMB'000*
Cost of inventories*	**4,006,964**	4,350,214
Depreciation of property, plant and equipment	**265,788**	239,555
Depreciation of lease prepayments (right-of-use assets)#	**2,935**	2,843
Amortisation of intangible assets	**158**	–
Provision/(reversal) of loss allowance for trade and other receivables	**6,081**	(11,973)
Provision of write-down of inventories	**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 7(b) for each of these types of expenses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.

(ii) The provision for PRC Income Tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

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%.

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

	2020	2019
	RMB'000	*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 of 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

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of 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:

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	**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	**–**	10,209,171
Weighted average number of ordinary shares (diluted) at 31 December	**2,567,069,162**	2,549,626,341

10 TRADE AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*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 receivables	**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 receivables held by the Group are achieved by both collecting contractual cash flows and selling financial assets, which are measured at fair value through other comprehensive income.

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

(a) Ageing analysis

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

	2020	2019
	RMB'000	*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 and bills receivables are due from 90 to 180 days from the date of billing.

(b) Loss allowance of trade receivables

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

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**	**Loss allowance**
	%	***RMB'000***	***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	Loss allowance
	%	*RMB'000*	*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.

Movement 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

11 TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	*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 payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2020	2019
	RMB'000	*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

12 DIVIDENDS

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

	2020	2019
	RMB'000	*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.

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

	2020	2019
	RMB'000	*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.

MANAGEMENT DISCUSSION AND 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 8 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.

Other financial assets

Other financial assets held by the Group included equity interests in Bank of Jiangsu Co., Ltd., Xiamen Chuangfeng Yizhi Investment Management Partnership, Nanjing Xiaomuma Technology Co., Ltd., JM Digital Steel Inc., 寧波梅山保稅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 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 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)*, 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, 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, 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 points 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 for 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.

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.

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.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for transfer 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 issued 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 OPTIONS SCHEME

The current share option scheme of the Company was approved by the Company in the Annual General Meeting held on 26 May 2017.

On 11 January 2018, options entitled holders to subscribe for a total of 60,000,000 shares of USD0.0025 each were granted to and accepted by 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 ended 31 December 2019 represents 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 these 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.

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**	**Lowest**	**Aggregate consideration paid**
		(HKD)	*(HKD)*	*(HKD)*
June 2020	4,050,000	2.50	2.35	9,768,280
Total	4,050,000			9,768,280

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.

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. 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.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix10 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.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2020 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

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

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

Hong Kong, 29 March 2021

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

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

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

* *For identification purpose*