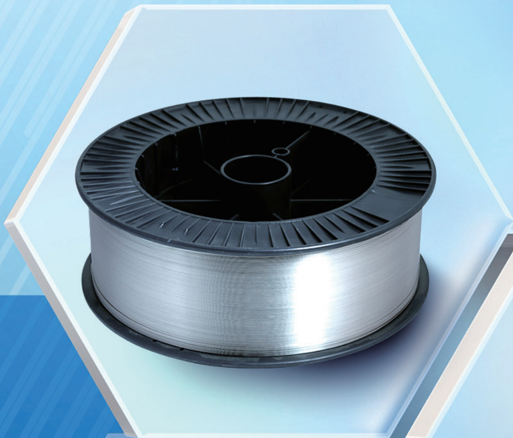
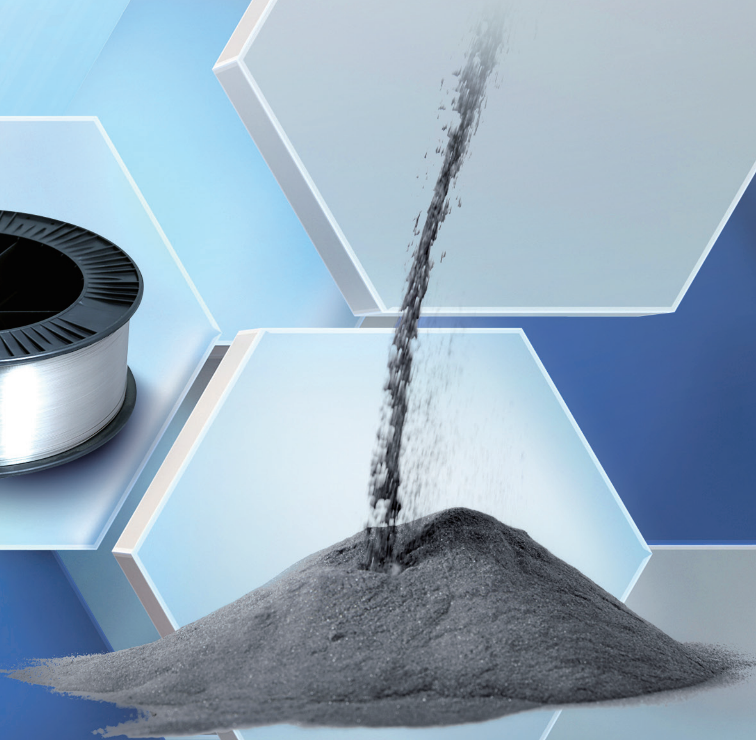
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

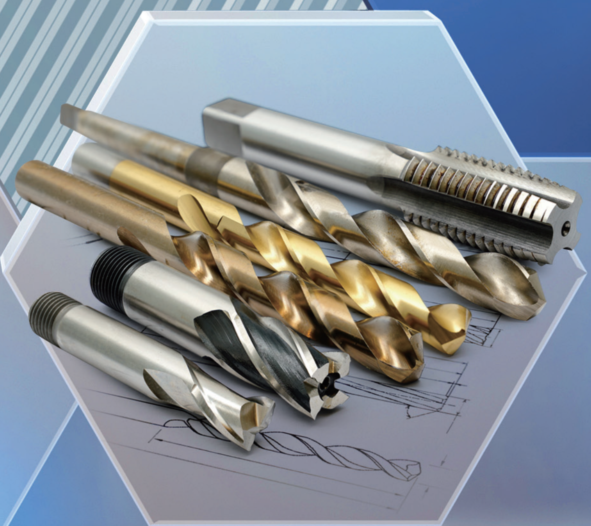
(Incorporated in the Cayman Islands with limited liability)

Stock Code : 826





Interim Report 2020



* *For identification purpose only*

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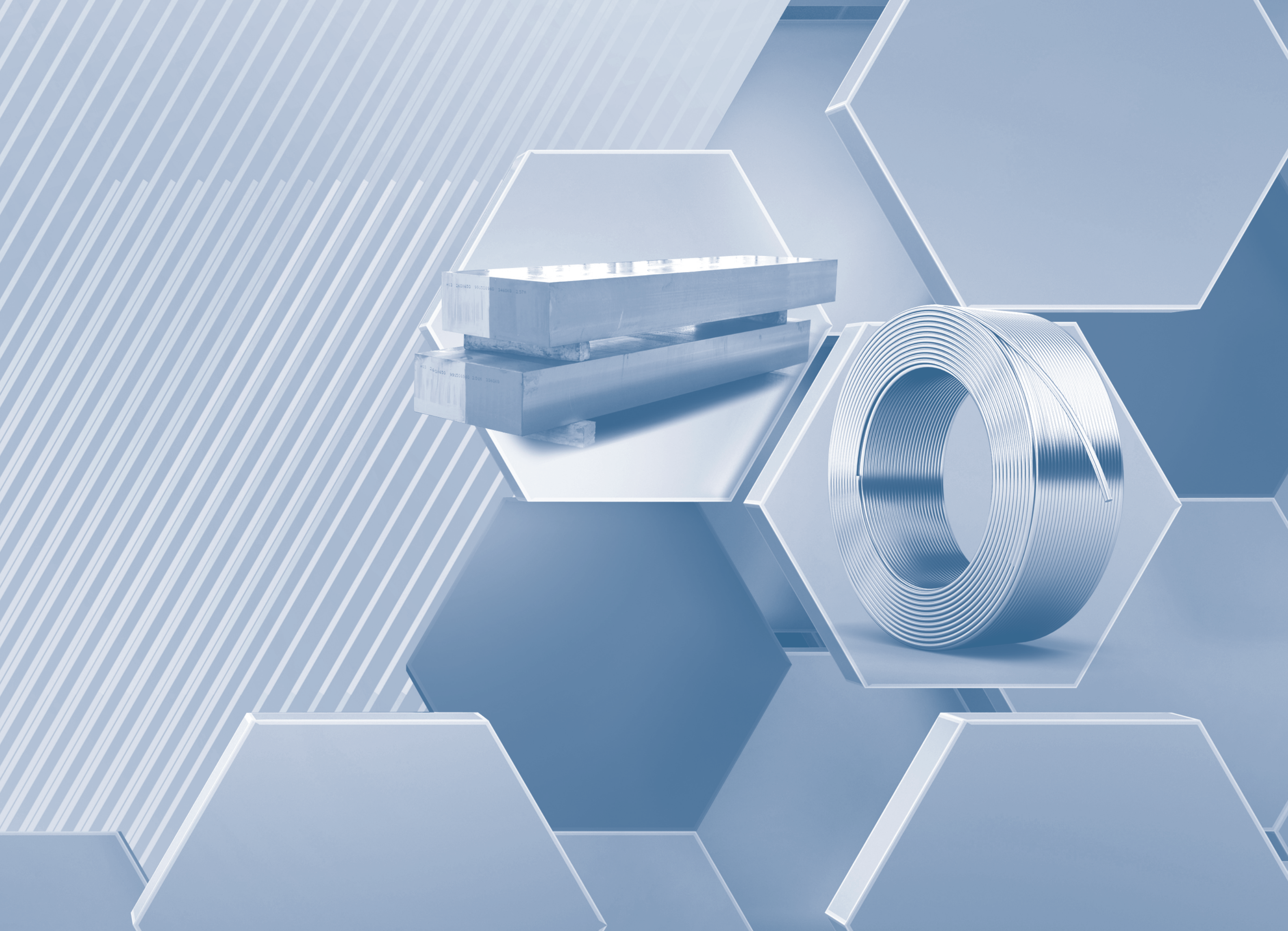

Corporate Information

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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AUDITORS
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Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance.
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
SMP Partners (Cayman) Limited
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24 Shedden Road, P.O. Box 1586
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Computershare Hong Kong Investor Services Limited Shops
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Hopewell Center
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PRINCIPAL BANKERS
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited
The Export-Import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

INVESTOR RELATIONS
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Management Discussion and Analysis

BUSINESS REVIEW

	For the six months ended 30 June					
	2020		2019		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel ("DS")	**1,137,548**	**45.3**	1,100,496	39.2	37,052	3.4
High speed steel ("HSS")	**358,280**	**14.3**	376,037	13.4	(17,757)	(4.7)
Cutting tools	**396,517**	**15.8**	282,023	10.0	114,494	40.6
Titanium alloy	**90,817**	**3.6**	144,596	5.2	(53,779)	(37.2)
Trading of goods	**526,228**	**21.0**	903,423	32.2	(377,195)	(41.8)
	2,509,390	**100.0**	2,806,575	100.0	(297,185)	(10.6)

DS — accounted for approximately 45% of the Group's revenue in 1H2020

	For the six months ended 30 June					
	2020		2019		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	**738,021**	**64.9**	496,543	45.1	241,478	48.6
Export	**399,527**	**35.1**	603,953	54.9	(204,426)	(33.8)
	1,137,548	**100.0**	1,100,496	100.0	37,052	3.4

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. Many different manufacturing industries require moulds, including the automotive, high-speed railway construction, aviation and plastic product manufacturing industries.

Affected by the Novel Coronavirus (COVID-19) pandemic, the operating environment for domestic and overseas markets encountered significant changes during the period. The spreading of the pandemic and production resumption varied from country to country. As a result, revenue from the domestic market and overseas markets differed. In 1H2020, the overall sales volume of DS products increased by 4.1% while the average selling price decreased slightly by 0.7%. Consequently, revenue contributed by DS segment increased by approximately 3.4% to RMB1,137,548,000 (1H2019: RMB1,100,496,000).

Due to a delay in production resumption in Japan and other foreign countries, demand for imported DS from domestic customers was affected by the reduced supply and logistics difficulties. Domestic customers were more willing to substitute their demand for imported DS with local products by domestic suppliers during the period. The Group seized this opportunity to reach new domestic customers in different industries. Significant amount of new orders were reached as a result of this trend of substitution. Moreover, the demand for melting spray dies used for production of face masks increased sharply due to the pandemic. As a result, domestic sales volume and average selling price increased by 35.9% and 9.3% respectively. Domestic revenue increased by 48.6% to RMB738,021,000 (1H2019: RMB496,543,000).

On the export side, due to the wide spread of COVID-19 in Europe and North America region, some overseas customers suspended their production for quarantine reason. Overseas demand for DS was affected. Revenue from export sales decreased by 33.8% to RMB399,527,000 (1H2019: RMB603,953,000).

Management Discussion and Analysis

HSS — accounted for approximately 14% of the Group's revenue in 1H2020

	For the six months ended 30 June					
	2020		2019		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	**233,194**	**65.1**	274,197	72.9	(41,003)	(15.0)
Export	**125,086**	**34.9**	101,840	27.1	23,246	22.8
	358,280	**100.0**	376,037	100.0	(17,757)	(4.7)

HSS, manufactured using rare metals including tungsten, molybdenum, chromium and vanadium, is characterised by greater hardness, heat resistance and durability. These attributes make HSS suited to such applications as cutting tools and in the manufacturing of high-temperature bearings, high-temperature springs, dies, internal-combustion engines and roll, with wide usage in specific industrial applications including automotive, machinery manufacturing, aviation and electronics industries.

Under the isolation policy to maintain social distancing, families in North America still maintained their leisure DIY activities in their backyards. Therefore, as a raw material for cutting tools, overseas demand for HSS remained strong.

In addition, the Group has begun to focus more on mid-to-high-end products since 2019, and domestic mid-to-high-end demand was relatively small compared to overseas. Accordingly, the Group allocated its resources to match the changes in demand.

Overall revenue of HSS decreased slightly by 4.7% to RMB358,280,000 (1H2019: RMB376,037,000). In the domestic market, the sales volume decreased by 13.3% while the average selling price decreased by 1.9%. In contrast, the sales volume in overseas markets increased by 27.4% while the average selling price decreased by 3.6%.

Cutting tools — accounted for approximately 16% of the Group's revenue in 1H2020

	For the six months ended 30 June					
	2020		2019		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	**110,666**	**27.9**	99,831	35.4	10,835	10.9
Export	**285,851**	**72.1**	182,192	64.6	103,659	56.9
	396,517	**100.0**	282,023	100.0	114,494	40.6

Cutting tools segment included 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 the Group's peers. The high end carbide tools manufactured by the Group mainly comprised of customised tools.

Management Discussion and Analysis

In 1H2020, overall sales volume of cutting tools products increased significantly by 29.3% while the average selling price slightly increased by 8.7%. Consequently, revenue of the cutting tools segment increased by 40.6% to RMB396,517,000 (1H2019: RMB282,023,000).

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 19.9% and 30.8% respectively during the period. As a result, export revenue recorded an increase of 56.9% to RMB285,851,000 (1H2019: RMB182,192,000).

Since 2018, the domestic market has become a price competitive market, especially the domestic lower-end product section. More focus was placed on domestic and overseas markets of middle end products. Since the increase in market share in overseas markets from fall 2019, the Group reallocated more of its product capacity to serve overseas markets. Compared to the overseas markets, the domestic revenue only increased by 10.9% to RMB110,666,000 (1H2019: RMB99,831,000).

Titanium alloy — accounted for approximately 4% of the Group's revenue in 1H2020

	For the six months ended 30 June					
	2020		2019		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**89,744**	**98.8**	144,372	99.8	(54,628)	(37.8)
Export	**1,073**	**1.2**	224	0.2	849	379.0
	90,817	**100.0**	144,596	100.0	(53,779)	(37.2)

The titanium alloy segment has been a growing segment among the Group's products. The corrosion resistance nature of the 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. Therefore, the speed of resumption of downstream enterprises was relatively slow. Accordingly, the revenue contributed by the titanium alloy segment decreased by 37.2% to RMB90,817,000 (1H2019: RMB144,596,000).

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 period, the Group focused on its core businesses and reduced the volume of trading of goods business.

Management Discussion and Analysis

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company increased by approximately 41.2% from RMB149,468,000 in the first half of 2019 to RMB211,017,000 in the first half of 2020. The increase was mainly attributable to (i) the domestic demand for imported die steel was substituted by local products during the period, resulting in a significant increase in domestic sales volume. Although the export sales volume of die steel decreased due to the impact of COVID-19, the overall sales volume of die steel still recorded an increase; and (ii) the absorption of certain OEM orders from one of its major competitors since fall 2019. An increase in market share of cutting tools segment resulted in a significant increase in sales volume during the period compared to the same period last year.

Revenue

Revenue of the Group for the first half of 2020 totalled RMB2,509,390,000, representing a decrease of 10.6% when compared with RMB2,806,575,000 in the first half of 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 4.2% to RMB1,983,162,000 (1H2019: RMB1,903,152,000). For the analysis of individual segments, please refer to the "Business Review" section.

Cost of sales

The Group's cost of sales decreased from RMB2,344,282,000 (restated) for the first half of 2019 to RMB1,967,832,000 for the first half of 2020, representing a decrease of 16.1%. The decrease was mainly due to a decrease in sales under the trading of goods business during the period.

Gross margin

For the first half of 2020, gross margin was 21.6% (1H2019: 16.5% (restated)). Set out below is the gross margin for the five segments of the Group for the first half of 2019 and 2020:

	For the six months ended 30 June	
	2020	2019 (Restated)
DS	**27.1%**	23.6%
HSS	**27.9%**	24.4%
Cutting tools	**20.2%**	15.2%
Titanium alloy	**18.1%**	21.0%
Trading of goods	**0.03%**	0.04%

DS

The gross margin of DS increased from 23.6% (restated) in the first half of 2019 to 27.1% in the first half of 2020. During the period, average purchase prices of raw materials decreased compared with the same period of 2019. The extent of adjustment on average selling price of the Group's products was lower than that of raw materials because of an increase in the local demand.

HSS

Similar to DS, the average selling price adjustment did not fully follow the decrease in average purchase prices. Gross margin of HSS increased from 24.4% (restated) in the first half of 2019 to 27.9% in the first half of 2020.

Cutting tools

Gross margin of cutting tools increased from 15.2% (restated) in the first half of 2019 to 20.2% in the first half of 2020. The increase was mainly caused by a change in the mix of the products sold and an increase in online sales proportion during the period.

Titanium alloy

Gross margin of titanium alloy decreased from 21.0% (restated) in the first half of 2019 to 18.1% in the first half of 2020. The decrease was mainly due to a decrease in production volume, which increased the average fixed costs absorbed by the products.

Other income

The Group's other income increased from RMB11,562,000 in the first half of 2019 to RMB13,961,000 in the first half of 2020. The increase was mainly attributable to an increase in government grants received from the PRC government and dividend income from equity investments.

Distribution expenses

The Group's distribution expenses were RMB44,378,000 (1H2019: RMB46,232,000), representing a decrease of 4.0%. New contract with lower average transportation cost was renewed with logistic services provider. Besides, toll-free arrangement was provided by the local government after the outbreak of COVID-19. For the first half of 2020, distribution expenses as a percentage of revenue was 1.8% (1H2019: 1.6%).

Administrative expenses

For the first half of 2020, the Group's administrative expenses decreased to RMB44,591,000 (1H2019: RMB63,040,000). The decrease was mainly attributable to (i) local government exemption policy on social insurance due to the outbreak of COVID-19; and (ii) cost of share option scheme allocated in first of 2019. For the first half of 2020, administrative expenses as a percentage of revenue was 1.8% (1H2019: 2.2%).

Net finance costs

The Group's net finance costs increased from RMB61,528,000 in the first half of 2019 to RMB71,457,000 in the first half of 2020, which was the result of increased average monthly loan balance during the first half of 2020.

Income tax expense

The Group's income tax expense increased from RMB19,418,000 in the first half of 2019 to RMB27,143,000 in the first half of 2020. The increase was mainly due to an increase in the operating results during the period.

Profit for the period

As a result of the factors set out above, the Group's profit increased by 38.7% to RMB213,120,000 for the first half of 2020 from RMB153,699,000 for the first half of 2019. The Group's net profit margin increased from 5.5% in the first half of 2019 to 8.5% in the same period of 2020.

Management Discussion and Analysis

Profit attributable to equity shareholders of the Company

For the first half of 2020, profit attributable to equity shareholders of the Company was RMB211,017,000 (1H2019: RMB149,468,000), representing an increase of 41.2%.

Trade and bills receivable

Net trade and bills receivable increased mildly from RMB2,160,496,000 as at 31 December 2019 to RMB2,230,887,000 as at 30 June 2020. The provision for doubtful debts of RMB116,782,000 (2019: RMB93,710,000) accounted for 5.0% (2019: 4.2%) of the trade and bills receivables.

INDUSTRY REVIEW

In the first half of 2020, the COVID-19 pandemic plunged the global economy into the deepest recession since World War II. Faced with severe challenges from the pandemic and complications both at home and abroad, China's economy has gradually begun to overcome the adverse effects brought on by the pandemic in the first half of 2020, with conditions showing restorative growth and steady recovery following sustained efforts to control and reduce the pandemic. According to data released by the National Bureau of Statistics, the gross domestic product (GDP) in the first half of 2020 reached RMB 45,661.4 billion, a year-on-year decrease of 1.6%. The total value added by industrial enterprises above a pre-defined size declined by 1.3% year-on-year, which indicates a gradual recovery in sales and production.

China has begun to show strong advances in its industrial upgrading in the later stages of urbanisation and the high-end equipment manufacturing industry, automobile machinery, energy, and military industry, continue to expand. According to statistics from the General Administration of Customs, China's special steel imports in 2019 reached nearly USD5.9 billion, and the average price of imported products was about 1.25 times the unit price of exported products. This indicates that China's special steel import and export pattern still relies on the export of low-end products and import of high-end products. However, with the continuous improvement of domestic enterprises' special steel production levels, China's special steel industry, especially the import substitution trend of high-end special steel, has shown continuous improvement in recent years, and there is still room for growth.

China is the world's largest consumer market for special steel, and demand is on the rise. As domestic pandemic prevention and control continues to improve, and policies to promote consumption expansion and quality improvement have been introduced, special steel products have become an important component of high-precision manufacturing industries such as the "new infrastructure", the automobile industry, and the national defense industry. The "13th Five-Year Plan for Strategic Emerging Industries Development" pointed out that it is necessary to expand the scale of application of high-strength light alloys, special alloys and high-quality special steels in order to meet the needs of aerospace, rail transit, electricity and electronics and new energy vehicle industries. China's "new infrastructure" policy and the uncertainty of the global epidemic accelerated the trend of domestic substitution. The special steel industry has entered an important strategic period, encouraging enterprises to upgrade their technology and products.

MARKET REVIEW

In the first half of 2020, global economies, including China, were hit hard by the sudden outbreak of COVID-19. At the same time, fluctuating oil prices and an unstable macroeconomic environment has paralysed the global capital markets. Under the impact of the pandemic, the growth rate of investments in major steel industries, such as real estate, infrastructure, and manufacturing, has dropped significantly, and year-on-year domestic steel consumption has plummeted.

Management Discussion and Analysis

External demand for Chinese steel has also been severely affected by the spread of COVID-19. According to data from the General Administration of Customs, China's cumulative exports of steel products reached 28.704 million tons, a year-on-year decrease of 16.5% in the first half of 2020. However, benefiting from efforts to prevent and control the pandemic, industry has gradually begun to recover. In China, supply of imported die steel was subject to difficulties in production and transportation during the pandemic. This led to an increase in the demand for substitution by domestic die steel, which resulted in a substantial increase in the Group's domestic sales of die steel. In addition, market share of the Group's precision cutting tool export business has also increased as new OEM orders were received during the period. These favorable factors offset the overall decline in steel exports, which enabled the Group's business to stabilise during the period.

The fast-spreading disease has triggered demand for medical masks, which also drives the need for high-end mold steel required for the production of face mask machines. As a leading global manufacturer of new materials, the Group has been proactively working to meet the sudden demand propelled by domestic pandemic prevention measures. The demand for special die steel for face mask machine dedicated to the manufacture of pandemic prevention materials has risen sharply. As the core component of the melting spray dies for face mask machines is made from the Group's special die steel, there is a significant increase in relevant orders.

The National Bureau of Statistics of China announced that China's gross domestic product (GDP) increased by 3.2% year-on-year in the second quarter, and the economic growth rate turned from negative to positive, indicating that the pace of domestic economic recovery has accelerated significantly. Given that the domestic situation improved in the second quarter, downstream production lines also resumed quickly. The increasing demand for replenishment of stocks in the intermediate links has led to a substantial rebound in steel prices. The industry has, therefore, regained its momentum, marked by an increase in both demand and profits.

To expand the Group's productivity and effectively deal with the adverse effects of the Sino-US trade conflict in order to cope with huge expected overseas demand in the future, the Group launched a new cutting tool factory in Thailand's Rojana Industrial Park, with a groundbreaking ceremony held in mid-March 2020. The factory is expected to begin operations in September 2020 with an annual capacity of 48 million pieces, fully meeting the needs of overseas markets and expanding the Group's market size. This will also help lay a more solid foundation for the Group's footprint in the international market.

ACHIEVEMENTS

As China's largest professional manufacturer of comprehensive new materials and cutting tools, in addition to a performance that continues to exceed market expectations, the Group has insisted on high cash dividends for investors for many years. Its stock has, therefore, long been favored by investors. With its good performance and active trading volume, the Group was officially included as one of the constituent components of Hang Seng Composite Index and Stock Connect on 9 March 2020. This has helped in achieving the initial goal of the Group rising in capital markets, and valuation is expected to further increase.

The continuous growth of the Group's turnover under adverse conditions also attracted the attention of research analysts. During the period under review, research reports on the Group were issued by five international research houses for the first time and gave positive ratings of "Buy" and "Overweight". It is encouraging that the performance and prospects of the Group have been recognised by investors.

Management Discussion and Analysis

OUTLOOK

Operation strategy

Domestic Industry Development

Looking forward to the second half of this year and into next year, more uncertainty is expected in overseas markets with another wave of pandemic in some international regions. In addition, demand for pandemic prevention materials and medical supplies remains high, especially the increasing need for medical masks, which is driving rapid development of the mask production industry chain and with it, demand for the Group's relevant die steel.

Economic growth in the second quarter turned from negative to positive and the pace of domestic economic recovery accelerated significantly. A series of domestic new and old infrastructure construction measures continue to be implemented to shore up growth. Steel consumption is expected to stabilise and rebound in the second half of the year. In addition to the pandemic prevention products industry, the Group also benefits from the rapid advancement of 5G infrastructure. The Group currently provides cold stamping mold making for manufacturing aluminum alloy, magnesium alloy in the frames of mobile phone cases. With the upgrading of 5G mobile phones, the demand for high-performance terminal product materials has also increased significantly, which is expected to drive sales of related products.

Overseas expansion

In order to meet global demand and to improve the speed and ability of supply, in addition to investing approximately RMB 150 million in the planning and construction of the first overseas highly automated cutting tool factory in Thailand, the Group also proactively seeks overseas expansion opportunities. This will not only promote cutting tool products to Southeast Asian markets, but also reduce the uncertainties caused by friction in international trade. At the same time, the Group actively considers potential overseas targets and plans to deploy the Group's first overseas special steel production base through acquisitions. This will become a milestone for the Group's transformation from internationalisation of sales to the internationalisation of production and processing.

Product development strategy

Developing the Powder Metallurgy Industry

To further enhance the profitability, the Group has focused on expansion of the high-end new material market and development of the powder metallurgy sector. The Group has been preparing to build a powder metallurgy production line since 2018. It has invested approximately RMB320 million in the first phase of investment to build the first domestic powder metallurgy production line for tool and die steel. The first phase of the project was put into trial run in November 2019 and put into operation in 2020, with an annual powder metallurgy capacity of 2,000 tons, meeting the needs of advanced manufacturing markets such as automobiles, aerospace and 3D printing. This is the only production line that allows mass production in the domestic new materials industry and is fast becoming an international high-end production line of new materials. This production line successfully breaks the monopoly of imported powder metallurgy which local industry has long relied on, thus filling the gap in domestic supply.

During the period, the powder metallurgy production line recorded first order and began to contribute to the Group's profit. It is expected that it will become a driving force for the Group's profit growth in the future.

High-end products such as the powder metallurgy market will be one of the key projects of the Group. According to a report by Global Industry Analysts, an overseas market research institution, the global powder metallurgy market size was valued at USD2.8 billion (approximately RMB19.6 billion), and is expected to reach USD4 billion (approximately RMB28 billion) in 2027, with a compound annual growth rate of 5.1%.

The Group's powder metallurgy business will also benefit from the continuous growth of the global powder metallurgy market, and its market share is expected to further increase.

Management Discussion and Analysis

Marketing Strategy

The Group has actively expanded its online sales channels and continues to develop e-commerce such as increasing the application of online sales platforms domestically and in overseas. Currently, the Group's products are sold on many large e-commerce platforms around the world, such as Alibaba, Amazon, eBay, JD and Tmall etc. The effectiveness of e-commerce sales was particularly significant during the pandemic when overseas online sales recorded a very satisfying growth of about 50% year-on-year.

The Group continues to increase the proportion of direct sales, further enhance customer stickiness, stabilise prices, save supply chain costs and reduce past dependence on distributors, while striving to increase market share.

Information Technology

To cope with the Group's expansion, international development, product series expansion, precise and professional production process and diversified sales channels, the Group invested over RMB 10 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 receiving, purchase to payment, planning to resources, manufacturing to cost, and order to delivery. The project has been successfully signed off 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.

AGAINST THE PANDEMIC

Since the global outbreak of COVID-19, the Group has been closely following its development and quickly formulating responses for prevention and control in response to changes in the pandemic. Internally, the Group quickly established a pandemic prevention and control emergency leadership team to coordinate pandemic prevention and control, production, and operations, while striving to ensure the smooth operation of production, and minimising the impact of the virus. The resumption rate at the Group's Zhenjiang headquarters quickly recovered to 100% in mid-March, and production capacity has recovered rapidly.

Externally, the Group actively fulfills its social responsibilities. It has contributed about RMB 1.6 million worth of donations to domestic regions such as Hubei and Wuhan, and also provided medical masks support to customers in countries such as South Korea, Italy, the United States, and Canada .

OUR MISSION

The Group has always strived for innovation and advancements in competitiveness to consolidate its leading market position.

We re-affirm on mission to maximise shareholder value, uphold corporate governance standards that create maximum value for shareholders and maintain the highest standards of corporate governance.

Management Discussion and Analysis

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 uncertainties 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 30 June 2020, the Group's current assets mainly included cash and cash equivalents of RMB594,786,000, inventories of RMB1,689,920,000, trade and other receivables of RMB2,729,231,000, time deposits of RMB422,000,000 and pledged deposits of RMB649,720,000. The Group's current assets were RMB6,088,797,000 compared to RMB5,954,464,000 as at 31 December 2019.

As at 30 June 2020, interest-bearing borrowings of the Group were RMB3,235,950,000 (31 December 2019: RMB3,251,733,000), RMB2,450,571,000 (31 December 2019: RMB2,612,845,000) of which were repayable within one year and RMB785,379,000 (31 December 2019: RMB638,888,000) of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was 29.9%, compared to 33.5% as at 31 December 2019.

As at 30 June 2020, borrowings of RMB1,797,800,000 (31 December 2019: RMB1,913,000,000) were denominated in RMB, USD93,668,343 (31 December 2019: USD99,437,074) were denominated in USD, EUR88,169,075 (31 December 2019: EUR65,140,227) were denominated in EUR and HKD80,000,000 (31 December 2019: HKD151,615,227) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.85% to 5.25% (31 December 2019: 0.70% to 5.22%). Net cash generated from operating activities during the period was RMB450,520,000 (1H2019: RMB419,979,000).

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2020, the Group's net increase in property, plant and equipment amounted to RMB70,158,000 (1H2019: RMB144,768,000). The increase was mainly related to the plant of powder metallurgy production line. As at 30 June 2020, capital commitments were RMB243,222,000 (31 December 2019: RMB350,787,000), of which RMB14,356,000 (31 December 2019: RMB92,792,000) was contracted for and RMB228,866,000 (31 December 2019: RMB257,995,000) was authorised but not contracted for. The majority of capital commitments related to smelting, forging and grinding facilities.

RISK AND PREVENTION

Operating Exposure

In the first half of 2020, the COVID-19 pandemic brought severe impacts to the global economy presenting unprecedented challenges to the world's economic development. However, under the decisive and precise prevention measures adopted by the Chinese government, the manufacturing industry has resumed in an orderly manner and enterprises were restored steadily, making demands of various materials relatively stable and showing strong resistance to risks. It has also provided important support for the resumption of work and production for downstream industries. During the period, the Group provided materials for manufacturing machinery for the manufacture of anti-pandemic items. As the demand for related machinery manufacturing materials increased significantly, the overall business was not affected by the pandemic.

The short-term impacts of the pandemic do not hinder the Group's deployment of its long-term investment. The construction of the production line in Thailand has started, and the internationalisation of the Group's production and processing has advanced steadily.

Management Discussion and Analysis

During the period under review, the Group's export turnover to the United States was RMB363 million, a year-on-year increase of 22.4%, accounting for 44.7% of the total export turnover. In order to reduce the risk of trade friction and maintain the procurement cost of raw materials, the Group is committed to making important arrangements for international development, actively building a new production line in Thailand, and promoting the Group's global footprints by OEM for overseas cutting tool companies.

Despite the fierce competition in the industry, with the Group's innovative technology, high-quality products and services, the Group has successfully secured OEM orders from one of its main competitors' foreign brands, which has increased the Group's cutting tool market share. As a result, the Group's sales volume has increased substantially.

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (67.7% (1H2019: 68.4%)). 32.3% (1H2019: 31.6%) of the total sales and operating profit was subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a timely basis to minimise any significant financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 30 June 2020, the Group pledged certain bank deposits amounting to approximately RMB649,720,000 (31 December 2019: RMB610,400,000) and certain trade receivables amounting to approximately RMB163,069,000 (31 December 2019: RMB107,037,000). Details are set out in the notes to the interim financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2020, the Group employed 2,823 employees (31 December 2019: 2,817). The Group provided employees with remuneration packages comparable to the 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 education and training for all of its staff on a regular basis.

CONTINGENT LIABILITIES

Both the Group and the Company had no material contingent liabilities as at 30 June 2020 (31 December 2019: No material contingent liabilities).

NO MATERIAL CHANGE

Save as disclosed in this report, information in relation to the Group's performance in the Reporting Period for matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from the information disclosed in the 2019 annual report of the Company.

Report of the Directors

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company is pleased to submit the interim report together with the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee").

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2019).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(a) Interests in the Company

Director's name	Interests	Number of ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun [(1)]	Interests of controlled corporations	773,258,000 (L)	30.10
	Beneficial owner	3,800,000 (L)	0.15
			30.25
Mr. Wu Suojun	Beneficial owner	1,600,000 (L)	0.06
	Beneficial owner[(2)]	800,000 (L)	0.03
Mr. Yan Ronghua	Beneficial owner	1,000,000 (L)	0.04
	Beneficial owner[(2)]	500,000 (L)	0.02
Mr. Jiang Guangqing	Beneficial owner	600,000 (L)	0.02
	Beneficial owner[(2)]	300,000 (L)	0.01
Mr. Lee Cheuk Yin, Dannis	Beneficial owner[(2)]	150,000 (L)	0.01
Mr. Gao Xiang	Beneficial owner[(2)]	150,000 (L)	0.01
Mr. Wang Xuesong	Beneficial owner[(2)]	150,000 (L)	0.01

Notes:

As at 30 June 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 773,258,000 shares held by THCL.

(2) Options (physically settled) granted under share option schemes of the Company.

(L) Represents long position.

(b) Interests in the shares of associated corporation

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	Jiangsu Tiangong Technology Company Limited ("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 interim report date, 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 30 June 2020, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares 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	Number of ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted)(7)
Yu Yumei(1)	Spousal interest(2)	777,058,000 (L)	30.25	29.90
THCL(1)	Beneficial owner	773,258,000 (L)	30.10	29.75
Zhu Zefeng	Interests of controlled corporations(3 and 4)	659,700,521 (L)	25.68	25.38
	Beneficial owner	1,000,000 (L)	0.04	0.04
	Beneficial owner	500,000 (L)(5)	0.02	0.02
			25.74	25.44

Substantial shareholders' name	Nature of interests and capacity	Number of ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted)[7]
Niu Qiu Ping	Spousal interest[6]	661,200,521 (L)	25.74	25.44
Sky Greenfield Investment Limited	Beneficial owner[3] Interests of controlled corporations[4]	615,768,521 (L) 43,932,000 (L)	23.97 1.71	23.69 1.69
			25.68	25.38
Liu Yang	Interest of controlled corporations[8]	153,615,000 (L)	5.98	5.91
Atlantis Capital Holdings Limited	Interest of controlled corporations[8]	153,615,000 (L)	5.98	5.91
Atlantis Investment Management Limited	Beneficial owner[8]	153,615,000 (L)	5.98	5.91
Atlantis Investment Management (Ireland) Limited	Beneficial owner[8]	11,990,000 (L)	0.47	0.46
Riverwood Asset Management (Cayman) Ltd.	Investment manager[9]	141,625,000 (L)	5.51	5.45
北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd.*)	Interests of controlled corporations[10]	150,000,000 (L)	5.84	5.77
深圳市安鵬股權投資基金管理有限公司 (Shenzhen An Peng Equity Investment Fund Management Co., Ltd*)	Beneficial owner	150,000,000 (L)	5.84	5.77
諾安基金管理有限公司－諾安彩虹十五號資產管理計劃 (BOC-Lion Rainbow No.15 Fund*)	Trustee[11]	150,000,000 (L)	5.84	5.77
Jiangsu Shagang Group Co., Ltd	Interests of controlled corporations[12]	150,000,000 (L)	5.84	5.77
Shagang International (Hong Kong) Co., Limited	Beneficial owner	150,000,000 (L)	5.84	5.77

(L) Represents long position.

Notes:

(1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Ms. 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) Mr. 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) Options granted under Share Option Scheme of the Company.

(6) 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.

(7) As at the date of 30 June 2020, 30,000,000 ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the Share Option Scheme of the Company.

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

(9) Riverwood Asset Management (Cayman) Ltd. Is wholly-owned by Liu Yang.

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

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

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

* 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

Notes:

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

(L) Represents long position.

SHARE OPTIONS SCHEME

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

The 2007 Share Option Scheme expired on 6 July 2017. A total of 35,170,000 shares have been allotted and issued pursuant to the 2007 Share Option Scheme, 56,911,000 options granted under the 2007 Share Option Scheme were cancelled and lapsed and no options granted under the 2007 Share Option Scheme remained outstanding and exercisable.

A new share option scheme of the Company was approved by the Company in the Annual General Meeting held on 26 May 2017 (the "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 162,009,000 shares may be granted, representing approximately 6.3% 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 vested on 31 March 2019 as 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 vested on 31 March 2020 as the consolidated audited net profit of the Company for the year ended 31 December 2019 represented an increase of 50% or more as compared to that of the year ended 31 December 2018. All these options have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period commencing from the relevant vesting date and ending on 31 December of the same year as the vesting date. The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each.

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

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

	No. of options outstanding at the beginning of the year	No. of options granted during the interim period	No. of shares acquired on exercise of options during the interim period	No. of shares cancelled/ lapsed/ forfeited during the interim period	No. of options outstanding at the end of the interim period	Date granted	Period during which options are exercisable[1]	Exercise price per share	Market value per share at date of grant of options[2]	Market value per share on exercise of options[2]
Directors										
Mr. Wu Suojun	800,000	–	–	–	800,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Yan Ronghua	500,000	–	–	–	500,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Jiang Guangqing	300,000	–	–	–	300,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Lee Cheuk Yin, Dannis	150,000	–	–	–	150,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Gao Xiang	150,000	–	–	–	150,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Wang Xuesong	150,000	–	–	–	150,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Employees	27,950,000	–	–	–	27,950,000	11 January 2018	1 April 2020 to 31 December 2020	HK$1.50	HK$1.29	–
	30,000,000	–	–	–	30,000,000					

The options granted to the Directors are registered under the names of the Directors who are also the beneficial owners.

Note (1):

For the share options granted on 11 January 2018, such share options granted shall vest in the grantees in accordance with the table below:

Vesting Date	Percentage of shares options
As 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 Vesting Date was 31 March 2019.	50% of the total number of share options granted
As 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, the Vesting Date was 31 March 2020.	50% of the total number of share options granted

Note (2):

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.

Apart from the aforementioned, at no time during the period was the Company, or any of its holding company or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During the Reporting Period, the market price range of the Company's shares is HK$2.10 to 3.44. As at the date of 30 June 2020, 30,000,000 ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the Share Option Scheme with the exercise price of HK$1.50.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2020, the Company repurchased 4,050,000 shares in total, at an aggregate purchase prices of HKD9,768,280.00 on the Stock Exchange. The shares repurchased were cancelled on 15 July 2020. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per ordinary shares		Aggregate consideration paid
		Highest (HKD)	Lowest (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 six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Report of the Directors

CORPORATE GOVERNANCE

During the six months ended 30 June 2020, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the following deviation:

CG Code Provision A.6.7

CG 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 21 August 2020 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2020 interim report and interim 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 Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

CHANGE IN INFORMATION OF DIRECTORS

There is a change in information of Mr. Lee Cheuk Yin, Dannis who is an INED of the Company. Pursuant to Rule 13.51B(1) of the Listing Rules, the details of the change are as follows:

Mr. Lee Cheuk Yin, Dannis has been appointed as an independent non-executive director of Cathay Media and Education Group Inc. (Stock Code of HKEx: 1981) on 30 June 2020 which was listed on the Main Board of the Stock Exchange on 15 July 2020.

FACILITIES AGREEMENT IMPOSING A SPECIFIC PERFORMANCE OBLIGATION ON THE CONTROLLING SHAREHOLDER OF THE COMPANY

On 20 July 2020, the Company (as borrowers) entered into a facilities agreement with a Hong Kong licensed bank (the "Facilities Agreement") of up to an aggregate amount of approximately HK$270,000,000 (the "Facilities"). The Facilities are unsecured and interest bearing with any outstanding amounts to be repaid in full on the date falling three years from the date of the Facilities Agreements.

Pursuant to the Facilities Agreement, Mr. Zhu Xiaokun and Mr. Zhu Zefeng, the controlling shareholders of the Company, are required to maintain beneficiary interests (direct and indirect) of no less than 45% shareholdings of the Company as long as the Facilities are available (the "Specific Performance Obligation"). As at the date of this report, Mr. Zhu Xiaokun and Mr. Zhu Zefeng beneficially own an aggregate of approximately 56.07% 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 and other subsidiaries to be immediately due and payable.

By order of the Board

24 August 2020

Independent Review Report

Review report to the board of directors of
Tiangong International Company Limited
for the six months ended 30 June 2020
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 23 to 52 which comprises the consolidated statement of financial position of Tiangong International Company Limited as at 30 June 2020 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

24 August 2020

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2020 (unaudited)

	Note	Six months ended 30 June 2020 RMB'000	2019 RMB'000 (Restated)
Revenue	3	**2,509,390**	2,806,575
Cost of sales		**(1,967,832)**	(2,344,282)
Gross profit		**541,558**	462,293
Other income	4	**13,961**	11,562
Distribution expenses		**(44,378)**	(46,232)
Administrative expenses		**(44,591)**	(63,040)
Research and development expenses		**(105,133)**	(106,169)
Other expenses	5	**(49,114)**	(20,792)
Profit from operations		**312,303**	237,622
Finance income		**13,732**	9,720
Finance expenses		**(85,189)**	(71,248)
Net finance costs	6(a)	**(71,457)**	(61,528)
Share of profits of associates		**2,234**	3,302
Share of losses of joint ventures		**(2,817)**	(6,279)
Profit before income tax	6	**240,263**	173,117
Income tax	7	**(27,143)**	(19,418)
Profit for the period		**213,120**	153,699
Attributable to:			
Equity shareholders of the Company		**211,017**	149,468
Non-controlling interests		**2,103**	4,231
Profit for the period		**213,120**	153,699
Earnings per share (RMB)	8		
Basic		**0.082**	0.059
Diluted		**0.082**	0.059

The notes on pages 30 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2020 (unaudited)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	**213,120**	153,699
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income		
— net movement in fair value reserve (net of tax of RMB2,355,000 (2019: net of tax of RMB1,935,000)) (non-recycling)	**(13,345)**	10,965
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	**(4,807)**	(319)
Other comprehensive income for the period	**(18,152)**	10,646
Total comprehensive income for the period	**194,968**	164,345
Attributable to:		
Equity shareholders of the Company	**192,865**	160,114
Non-controlling interests	**2,103**	4,231
Total comprehensive income for the period	**194,968**	164,345

The notes on pages 30 to 52 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2020 (unaudited)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	9	**3,937,046**	3,866,888
Lease prepayments		**111,905**	113,353
Goodwill		**21,959**	21,959
Interest in associates		**58,210**	53,466
Interest in joint ventures		**22,739**	27,638
Other financial assets	10	**125,800**	141,500
Deferred tax assets		**49,181**	37,109
		4,326,840	4,261,913
Current assets			
Trading securities		**3,140**	2,765
Inventories	11	**1,689,920**	1,734,664
Trade and other receivables	12	**2,729,231**	2,708,618
Pledged deposits	13	**649,720**	610,400
Time deposits		**422,000**	500,000
Cash and cash equivalents	14	**594,786**	398,017
		6,088,797	5,954,464
Current liabilities			
Interest-bearing borrowings	15	**2,450,571**	2,612,845
Trade and other payables	16	**1,761,035**	1,600,858
Current taxation		**28,672**	28,122
Deferred income		**6,509**	6,509
		4,246,787	4,248,334
Net current assets		**1,842,010**	1,706,130
Total assets less current liabilities		**6,168,850**	5,968,043
Non-current liabilities			
Interest-bearing borrowings	15	**785,379**	638,888
Deferred income		**55,135**	51,369
Deferred tax liabilities		**79,179**	74,652
		919,693	764,909
Net assets		**5,249,157**	5,203,134

Consolidated Statement of Financial Position

as at 30 June 2020 (unaudited) (continued)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Capital and reserves			
Share capital	17	**45,694**	45,766
Reserves		**5,034,573**	4,990,581
Total equity attributable to equity shareholders of the Company		**5,080,267**	5,036,347
Non-controlling interests		**168,890**	166,787
Total equity		**5,249,157**	5,203,134

Approved and authorised for issue by the board of directors on 24 August 2020.

Zhu Xiaokun
Directors

Yan Ronghua
Directors

The notes on pages 30 to 52 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2020 (unaudited)

		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 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 six months ended 30 June 2019													
Profit for the period		–	–	–	–	–	–	–	–	–	149,468	4,231	153,699
Other comprehensive income		–	–	–	–	–	(319)	–	10,965	–	–	–	10,646
Total comprehensive income		–	–	–	–	–	(319)	–	10,965	–	149,468	4,231	164,345
Dividends approved in respect of the previous year	17(a)	–	–	–	–	–	–	–	–	–	(90,410)	–	(90,410)
Equity settled share-based transactions	17(c)	–	–	–	2,129	–	–	–	–	–	–	–	2,129
Balance at 30 June 2019		45,242	1,984,102	492	82,787	91,925	(60,957)	–	56,895	598,798	1,944,053	155,687	4,899,024
Balance at 1 July 2019		45,242	1,984,102	492	82,787	91,925	(60,957)	–	56,895	598,798	1,944,053	155,687	4,899,024
Changes in equity for the six months ended 31 December 2019													
Profit for the period		–	–	–	–	–	–	–	–	–	245,678	4,641	250,319
Other comprehensive income		–	–	–	–	–	2,145	–	1,515	–	–	–	3,660
Total comprehensive income		–	–	–	–	–	2,145	–	1,515	–	245,678	4,641	253,979
Dividends approved in respect of the previous year	17(a)	–	–	–	–	–	–	–	–	–	(274)	–	(274)
Transfer to reserve		–	–	–	–	–	–	–	–	75,799	(75,799)	–	–
Exercise of share options		524	45,767	–	(5,805)	–	–	–	–	–	–	–	40,486
Equity settled share-based transactions	17(c)	–	–	–	(8,272)	–	–	–	–	–	10,401	–	2,129
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

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2020 (unaudited) (continued)

		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 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 the six months ended 30 June 2020													
Profit for the period		–	–	–	–	–	–	–	–	–	211,017	2,103	213,120
Other comprehensive income		–	–	–	–	–	(4,807)	–	(13,345)	–	–	–	(18,152)
Total comprehensive income		–	–	–	–	–	(4,807)	–	(13,345)	–	211,017	2,103	194,968
Dividends approved in respect of the previous year	17(a)	–	–	–	–	–	–	–	–	–	(140,013)	–	(140,013)
Repurchase of own shares	17(b)	(72)	(8,932)	72	–	–	–	–	–	–	–	–	(8,932)
Balance at 30 June 2020		45,694	2,020,937	564	70,041	91,925	(63,619)	–	45,065	674,597	2,195,063	168,890	5,249,157

The notes on pages 30 to 52 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2020 (unaudited)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**482,290**	426,806
Tax paid	**(31,770)**	(6,827)
Net cash generated from operating activities	**450,520**	419,979
Investing activities		
Payment for the purchase of property, plant and equipment and lease prepayments	**(197,705)**	(286,771)
Other cash flows generated from/(used in) investing activities	**50,908**	(30,690)
Net cash used in investing activities	**(146,797)**	(317,461)
Financing activities		
Proceeds from new interest-bearing borrowings	**2,748,756**	2,504,919
Repayment of interest-bearing borrowings	**(2,764,539)**	(2,449,915)
Dividend paid to equity shareholders of the Company	**–**	(90,410)
Payment for repurchase of shares	**(8,932)**	–
Interest paid	**(85,365)**	(71,497)
Net cash used in financing activities	**(110,080)**	(106,903)
Net increase/(decrease) in cash and cash equivalents	**193,643**	(4,385)
Cash and cash equivalents at 1 January	**398,017**	583,235
Effect of foreign exchange rates changes	**3,126**	(1,479)
Cash and cash equivalents at 30 June	**594,786**	577,371

The notes on pages 30 to 52 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1 BASIS OF PREPARATION

This interim financial report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 24 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 22.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements for the financial year ended 31 December 2019. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2019. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

2 CHANGES IN ACCOUNTING POLICIES AND PRESENTATION AND DISCLOSURES

(a) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the 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*

Other than the amendment to IFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

(b) Changes in presentation and disclosures

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

Affected items in the consolidated statement of profit or loss for the six-month period ended 30 June 2019:

	For the six-month period ended 30 June 2019		
	Before adjustment RMB'000	Adjustment RMB'000	After adjustment RMB'000
Cost of sales	2,450,451	(106,169)	2,344,282
Research and development expenses	–	106,169	106,169
Total		–	

3 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 3(b).

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
DS	**1,137,548**	1,100,496
HSS	**358,280**	376,037
Cutting tools	**396,517**	282,023
Titanium alloy	**90,817**	144,596
Trading of goods	**526,228**	903,423
	2,509,390	2,806,575

The Group's revenue from contracts with customers was recognised at a point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 3(b)(iii).

For the six months ended 30 June 2020, the Group's customer base is diversified and includes one customer (six months ended 30 June 2019: one customer) with whom transactions exceeded 10% of the Group's revenue. For the six months ended 30 June 2020, revenues from trading of goods to this customer amounted to approximately RMB526,228,000 (six months ended 30 June 2019: RMB903,423,000) and arose in the PRC.

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting

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

— *DS* The DS segment manufactures and sells materials that are used in the die set manufacturing industry.

— *HSS* The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.

— *Cutting tools* The cutting tools segment manufactures and sells HSS and carbide cutting tools to the tooling industry.

— *Titanium alloy* The titanium alloy segment manufactures and sells titanium alloys to the titanium industry.

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

(i) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of interest in associates, interest in joint ventures, other financial assets, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other head office and corporate assets. Segment liabilities include bills payable, trade and non-trade payables, deferred income and accrued expenses attributable to the manufacturing and sales activities of the individual segments with the exception of interest-bearing borrowings, current taxation, deferred tax liabilities and other head office and corporate liabilities.

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

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

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the period ended 30 June 2020 and 2019 is set out below.

	Six months ended 30 June 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	1,137,548	358,280	396,517	90,817	526,228	2,509,390
Inter-segment revenue	–	130,491	–	–	–	130,491
Reportable segment revenue	1,137,548	488,771	396,517	90,817	526,228	2,639,881
Reportable segment profit (adjusted EBIT)	201,867	106,581	71,849	9,553	154	390,004

	As at 30 June 2020					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	4,396,932	2,112,105	1,431,909	517,712	8	8,458,666
Reportable segment liabilities	967,269	409,463	345,191	82,030	–	1,803,953

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

	Six months ended 30 June 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	1,100,496	376,037	282,023	144,596	903,423	2,806,575
Inter-segment revenue	–	150,171	–	–	–	150,171
Reportable segment revenue	1,100,496	526,208	282,023	144,596	903,423	2,956,746
Reportable segment profit (adjusted EBIT)	173,160	75,759	36,139	19,424	350	304,832

	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
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

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Revenue	Six months ended 30 June 2020 RMB'000	2019 RMB'000
Reportable segment revenue	**2,639,881**	2,956,746
Elimination of inter-segment revenue	**(130,491)**	(150,171)
Consolidated revenue	**2,509,390**	2,806,575

Profit	Six months ended 30 June 2020 RMB'000	2019 RMB'000
Reportable segment profit	**390,004**	304,832
Net finance costs	**(71,457)**	(61,528)
Share of profits of associates	**2,234**	3,302
Share of losses of joint ventures	**(2,817)**	(6,279)
Other unallocated head office and corporate expenses	**(77,701)**	(67,210)
Consolidated profit before income tax	**240,263**	173,117

Assets	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Reportable segment assets	**8,458,666**	8,380,578
Interest in associates	**58,210**	53,466
Interest in joint ventures	**22,739**	27,638
Other financial assets	**125,800**	141,500
Deferred tax assets	**49,181**	37,109
Trading securities	**3,140**	2,765
Pledged deposits	**649,720**	610,400
Time deposits	**422,000**	500,000
Cash and cash equivalents	**594,786**	398,017
Other unallocated head office and corporate assets	**31,395**	64,904
Consolidated total assets	**10,415,637**	10,216,377

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Liabilities	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Reportable segment liabilities	**1,803,953**	1,635,848
Interest-bearing borrowings	**3,235,950**	3,251,733
Current taxation	**28,672**	28,122
Deferred tax liabilities	**79,179**	74,652
Other unallocated head office and corporate liabilities	**18,726**	22,888
Consolidated total liabilities	**5,166,480**	5,013,243

(iii) Geographical information

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

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

Revenue	Six months ended 30 June 2020 RMB'000	2019 RMB'000
The PRC	**1,697,854**	1,918,366
North America	**363,039**	296,563
Europe	**293,257**	408,010
Asia (other than the PRC)	**138,061**	160,193
Others	**17,179**	23,443
Total	**2,509,390**	2,806,575

4 OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Government grants	**7,419**	4,065
Sales of scrap materials	**1,114**	2,232
Net gains on disposal of property, plant and equipment	**331**	–
Net foreign exchange gains	**–**	2,125
Dividends income from listed securities	**3,580**	800
Net realised and unrealised gains on trading securities	**299**	567
Others	**1,218**	1,773
	13,961	11,562

The subsidiaries of the Group, including Jiangsu Tiangong Tools Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe"), Jiangsu Tiangong Technology Company Limited ("TG Tech") and Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools"), located in the PRC, collectively received unconditional grants amounting to RMB4,165,000 (six months ended 30 June 2019: RMB1,426,000) from the local government as a reward for their contribution to the local economy and to encourage technology innovation. TG Tools and TG Tech also recognised amortisation of government grants related to assets of RMB3,254,000 (six months ended 30 June 2019: RMB2,639,000) during the six months ended 30 June 2020.

5 OTHER EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Provision for loss allowance on trade receivables	**29,900**	19,813
Net losses on disposal of property, plant and equipment	**–**	217
Net foreign exchange losses	**17,018**	–
Charitable donations	**1,625**	520
Others	**571**	242
	49,114	20,792

6 PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Note	Six months ended 30 June 2020 RMB'000	2019 RMB'000
Interest income		**(13,732)**	(9,720)
Finance income		**(13,732)**	(9,720)
Interest on bank loans		**96,138**	87,271
Less: interest expenses capitalised into property, plant and equipment under construction	9	**(10,949)**	(16,023)
Finance expenses		**85,189**	71,248
Net finance costs		**71,457**	61,528

(b) Other items

	Note	Six months ended 30 June 2020 RMB'000	2019 RMB'000 (Restated)
Cost of inventories*		**1,967,832**	2,344,282
Depreciation		**126,870**	118,443
Amortisation of lease prepayments		**1,448**	1,277
Provision for write-down of inventories	11	**5,607**	2,777
Provision for loss allowance on trade receivables	12	**29,900**	19,813

* Cost of inventories includes RMB105,143,000 (six months ended 30 June 2019: RMB96,032,000(restated)) relating to depreciation expenses and provision for write-down of inventories, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax		
Provision for PRC Income Tax	**33,176**	23,338
(Reversal)/provision for Hong Kong Profits Tax	**(1,294)**	1,048
Provision for Thailand Profits Tax	**438**	–
	32,320	24,386
Deferred tax		
Origination and reversal of temporary differences	**(5,177)**	(4,968)
	27,143	19,418

(a) 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.

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

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

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2019: 25%).

(c) Hong Kong Profits Tax has been provided for Tiangong Development Hong Kong Company Limited at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2020.

(d) Thailand Profits Tax has been provided for Tiangong Special Steel Company Limited ("TGSS Thailand") and Tiangong Precision Tools (Thailand) Company Limited ("Precision Thailand") at the rate of 20% on the estimated assessable profits arising in Thailand for the six months ended 30 June 2020.

8 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 RMB211,017,000 (six months ended 30 June 2019: RMB149,468,000) and the weighted average of 2,568,842,000 ordinary shares in issue during the interim period (six months ended 30 June 2019: 2,539,050,000).

8 EARNINGS PER SHARE (continued)

(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 RMB211,017,000 (six months ended 30 June 2019: RMB149,468,000) and the weighted average number of ordinary shares of 2,581,683,069 (including effect of equity settled share-based transactions) (six months ended 30 June 2019: 2,544,871,574) for the six months ended 30 June 2020 after taking into account the potential dilutive effect of share options.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020 the Group acquired items of plant and machinery at a cost of RMB197,705,000 (six months ended 30 June 2019: RMB248,180,000), excluding capitalised borrowing costs of RMB10,949,000 (six months ended 30 June 2019: RMB16,023,000). There were no material disposals of property, plant and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	**At 30 June 2020 RMB'000**	At 31 December 2019 RMB'000
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)			
— Listed in the PRC	(i)	**91,820**	107,520
— Unlisted equity securities	(ii)	**7,450**	7,450
Financial assets measured at fair value through profit or loss (FVPL)			
— Unlisted units in investment fund	(iii)	**26,530**	26,530
		125,800	141,500

Notes:

(i) The listed equity securities are interests in Bank of Jiangsu Co., Ltd., a company listed on the Mainboard of the Shanghai Stock Exchange ("SESH") and interests 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 six months ended 30 June 2020 (six months ended 30 June 2019: RMB800,000).

(ii) The unlisted equity securities are interests in Xiamen Chuangfeng Yizhi Investment Management Partnership, a partnership incorporated in the PRC and interests in Nanjing Xiaomuma Technology Co., Ltd., a company incorporated in the PRC. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received from these investments during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

(iii) The unlisted units in investment fund are interests in Jinan Financial Fosun Weishi Equity Investment Fund Partnership, a partnership incorporated in the PRC. This investment is primarily engaged or further invested in the industrial and technology sectors. No dividends were received from this investment during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Notes to the Unaudited Interim Financial Report

11 INVENTORIES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials	**38,967**	53,749
Work in progress	**768,235**	798,869
Finished goods	**882,718**	882,046
	1,689,920	1,734,664

During the six months ended 30 June 2020, the Group recognised a write-down of RMB5,607,000 (six months ended 30 June 2019: RMB2,777,000) against those inventories with net realisable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables	**1,416,162**	1,305,225
Bills receivable	**931,507**	948,981
Less: loss allowance	**(116,782)**	(93,710)
Net trade and bills receivable	**2,230,887**	2,160,496
Prepayments	**404,085**	408,771
Non-trade receivables	**94,259**	139,351
Less: loss allowance	**–**	–
Net prepayments and non-trade receivables	**498,344**	548,122
	2,729,231	2,708,618

Trade receivables of RMB163,069,000 (2019: RMB107,037,000) have been pledged to a bank as security for the Group's bank loans as disclosed in Note 15.

12 TRADE AND OTHER RECEIVABLES (continued)

At 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:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	**1,702,689**	1,606,362
4 to 6 months	**144,134**	238,911
7 to 12 months	**240,933**	213,164
1 to 2 years	**129,634**	100,158
Over 2 years	**13,497**	1,901
	2,230,887	2,160,496

Trade and bills receivables are due from 90 to 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

13 PLEDGED DEPOSITS

As at 30 June 2020, bank deposits of RMB649,720,000 (2019: RMB610,400,000) have been pledged to banks as security for bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

14 CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 30 June 2020 are cash at bank and on hand.

15 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Current			
Secured bank loans	(i)	**313,127**	392,087
Unsecured bank loans	(ii)	**1,596,004**	1,421,640
Current portion of non-current unsecured bank loans		**541,440**	799,118
		2,450,571	2,612,845
Non-current			
Unsecured bank loans	(iii)	**1,326,819**	1,438,006
Less: Current portion of non-current unsecured bank loans		**(541,440)**	(799,118)
		785,379	638,888
		3,235,950	3,251,733

Notes:

(i) The current bank loans were secured by certain trade receivables and sales contracts at annual interest rates ranging from 0.85% to 3.92% (2019: 0.70% to 3.92%) per annum and were repayable within one year.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 2.00% to 5.22% (2019: 1.00% to 5.22%) per annum and were repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 4.00% to 5.13% (2019: 2.92% to 5.15%) per annum.

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year	**541,440**	799,118
Over 1 year but within 2 years	**685,379**	500,545
Over 2 years but less than 5 years	**100,000**	138,343
	1,326,819	1,438,006

15 INTEREST-BEARING BORROWINGS (continued)

As at 30 June 2020, the Group's banking facility with seven banks are 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. As at 30 June 2020, none of the covenants relating to drawn down facilities had been breached (2019: None).

16 TRADE AND OTHER PAYABLES

At 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:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	**755,199**	750,743
4 to 6 months	**215,563**	434,420
7 to 12 months	**392,418**	128,327
1 to 2 years	**12,982**	22,191
Over 2 years	**36,497**	34,952
Total trade and bills payable	**1,412,659**	1,370,633
Contract liabilities	**80,363**	87,694
Non-trade payables and accrued expenses	**268,013**	142,531
	1,761,035	1,600,858

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved but not paid/ approved and paid during the interim period:

	2020 RMB'000	2019 RMB'000
Dividends in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0545 per share (approved and paid during the six months ended 30 June 2019: RMB0.0357 per share)	**140,013**	90,410

The directors did not recommend payment of an interim dividends for the interim period (no interim dividend for the six months period ended 30 June 2019).

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Purchase of own shares

During the interim period, 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

In total, the Company repurchased 4,050,000 ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited at a consideration of RMB8,932,000. All the repurchased shares were treated as cancelled during the six-month period ended 30 June 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.

(c) Equity settled share-based transactions

On 11 January 2018, 60,000,000 share options were granted to employees of the Company in two lots under the Company's employee share option scheme adopted on 26 May 2017. Each option gives the holder the right to subscribe for one ordinary share of the Company. 50% of these share options vested on 31 March 2019 and the remaining 50% of these share options vested on 31 March 2020. These share options will be exercisable until 31 December of the same years as the vesting date. The amount payable on acceptance per grant is HKD1.00. The exercise price is HKD1.50.

No options were exercised during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

When the options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in capital reserve will be transferred to retained earnings.

On 18 August 2019, 22,147,000 share options were forfeited which were granted on 18 August 2014 forfeited as they were not exercised at the expiry date, accordingly capital reserve amount of RMB10,401,000 was transferred to retained earnings.

(d) 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.

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

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

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

The Group's adjusted net debt-to-capital ratios at 30 June 2020 and 31 December 2019 were as follows:

	Note	**30 June 2020 RMB'000**	31 December 2019 RMB'000
Current liabilities:			
Interest-bearing borrowings	15	**2,450,571**	2,612,845
Non-current liabilities:			
Interest-bearing borrowings	15	**785,379**	638,888
Total debt		**3,235,950**	3,251,733
Add: Proposed dividends		**–**	138,301
Less: Cash and cash equivalents	14	**(594,786)**	(398,017)
Adjusted net debt		**2,641,164**	2,992,017
Total equity		**5,249,157**	5,203,134
Less: Proposed dividends		**–**	(138,301)
Adjusted capital		**5,249,157**	5,064,833
Adjusted net debt-to-capital ratio		**50%**	59%

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

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.

	Fair value at 30 June 2020	Fair value measurement at 30 June 2020 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	56,700	56,700	–	–
— Listed equity securities — NEEQ	35,120	–	–	35,120
— Unlisted equity securities	7,450	–	–	7,450
— Unlisted units in investment fund	26,530	–	–	26,530
Trading securities:				
— Listed equity securities	3,140	3,140	–	–
Trade and other receivables:				
— Bills receivable	931,507	–	931,507	–

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

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

The fair value of equity securities listed on the NEEQ, which do not have a quoted price in an active market, and also unlisted equity securities mentioned in Note 10 are determined using the price/earnings 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.

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

	2020 RMB'000
Unquoted equity securities and units in investment fund:	
At 1 January	**69,100**
Changes in fair value	**–**
At 30 June	**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.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

Except for equity securities set out in Note 10 and trading securities, 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 30 June 2020 and 31 December 2019.

19 RELATED PARTY TRANSACTIONS

The Group has transactions with a company controlled by a controlling shareholder ("controlling shareholder's company"), a company controlled by a close member of a controlling shareholder's family ("controlling shareholder's family member's company"), associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the consolidated interim financial statements, the Group entered into the following related party transactions for the periods presented:

(a) Significant related party transactions

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Purchase of land and buildings:		
Controlling shareholder's company	**–**	100,000

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Sales of goods to:		
Joint ventures	**119,493**	151,152
Associates	**149,753**	155,609
Controlling shareholder's family member's company	**4,660**	6,421

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.

19 RELATED PARTY TRANSACTIONS (continued)

(b) Amounts due from related parties

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Joint ventures	**382,425**	370,417
Associates	**66,090**	53,733
Controlling shareholder's family member's company	**–**	57
	448,515	424,207

(c) Amounts due to related parties

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Associates	**336**	154
Joint ventures	**147**	27
Controlling shareholder's family member's company	**47,994**	53,285
	48,477	53,466

20 COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for	**14,356**	92,792
Authorised but not contracted for	**228,866**	257,995
	243,222	350,787

21 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 has brought additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's business and has put in place contingency measures to minimise the impact of the outbreak.

As far as the Group's businesses are concerned, the supply chain is extremely flexible, while suppliers and customers located in Hubei province account for less than 0.1% of the Group's purchases and sales. The ratio of the Group's employees that could not return to work because of the outbreak was below 1%. The Group has quickly recovered capacity, all of the employees at the headquarters in Zhenjiang have resumed work, and all production lines resumed production in March 2020. The directors consider that COVID-19 outbreak's impact on the Group has been mitigated.