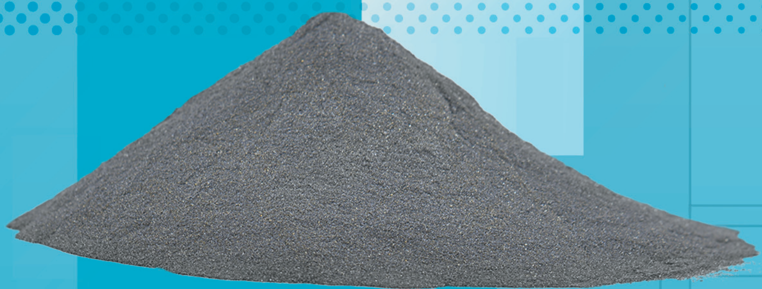
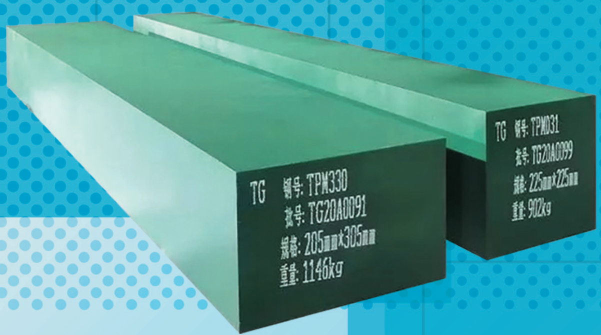
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 826



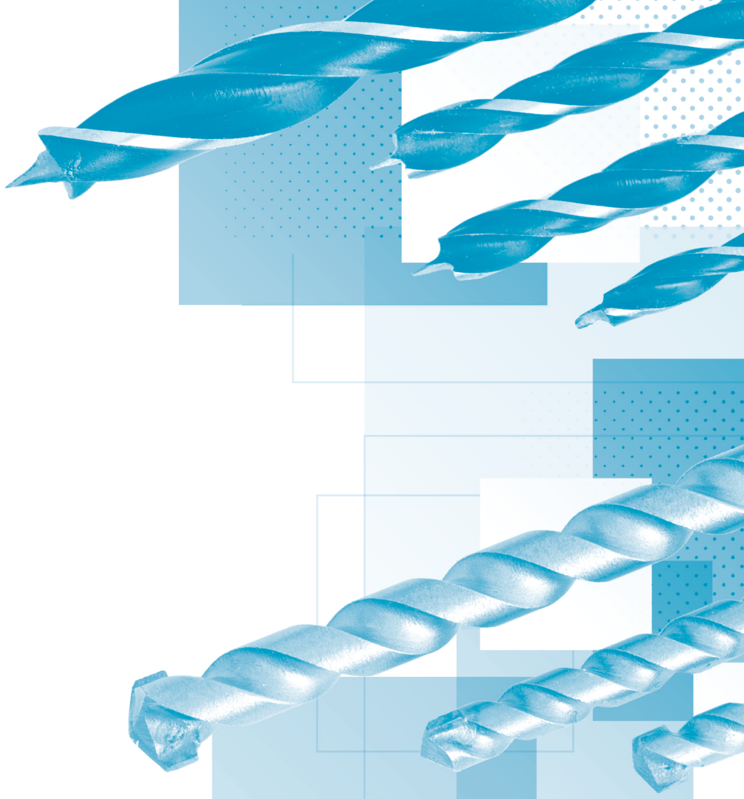


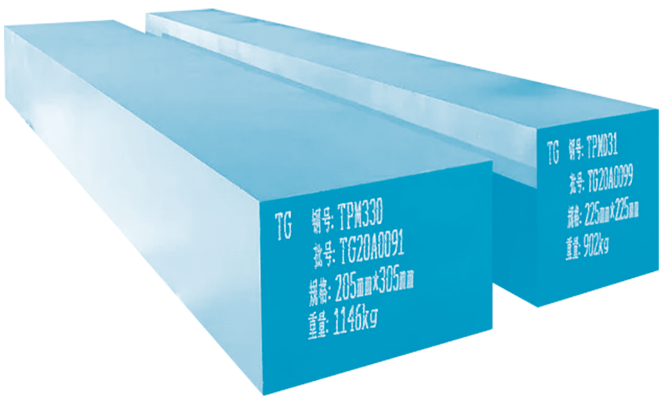
Interim Report 2021

MIX
Paper from responsible sources
FSC™ C120915
FSC
www.fsc.org

* *For identification purpose only*

Contents





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
Mr. Yan Ronghua
Mr. Jiang Guangqing

Independent Non-executive Directors
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Wang Xuesong

COMPANY SECRETARY
Mr. Lee Johnly

AUTHORIZED REPRESENTATIVES
Mr. Lee Cheuk Yin, Dannis
Mr. Lee Johnly

AUDIT COMMITTEE
Mr. Lee Cheuk Yin, Dannis *(Chairman)*
Mr. Gao Xiang
Mr. Wang Xuesong

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

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

REGISTERED OFFICE IN THE CAYMAN ISLANDS
P.O. Box 309
G.T. Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

REGISTERED OFFICE IN HONG KONG
20/F, Tien Chu Commercial Building
173–174 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS
Zhenjiang City
Jiangsu Province
The PRC

AUDITORS
KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance.
8/F, Prince's Building
10 Chater Road
Central
Hong Kong

HONG KONG LEGAL ADVISER
Reed Smith Richards Butler
17/F, One Island East
18 Westlands Road
Taikoo Place, Quarry Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East, Wanchai
Hong Kong

PRINCIPAL BANKERS
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited
The Export-Import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

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

Management Discussion and Analysis

BUSINESS REVIEW

	For the six months ended 30 June					
	2021		2020		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel ("DS")	**1,132,896**	**43.3**	1,137,548	45.3	(4,652)	(0.4)
High speed steel ("HSS")	**427,815**	**16.3**	358,280	14.3	69,535	19.4
Cutting tools	**459,219**	**17.6**	396,517	15.8	62,702	15.8
Titanium alloy	**105,022**	**4.0**	90,817	3.6	14,205	15.6
Trading of goods	**491,921**	**18.8**	526,228	21.0	(34,307)	(6.5)
	2,616,873	**100.0**	2,509,390	100.0	107,483	4.3

DS – accounted for approximately 43% of the Group's revenue in 1H2021

	For the six months ended 30 June					
	2021		2020		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**660,652**	**58.3**	738,021	64.9	(77,369)	(10.5)
Export	**472,244**	**41.7**	399,527	35.1	72,717	18.2
	1,132,896	**100.0**	1,137,548	100.0	(4,652)	(0.4)

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.

Looking back at the first half of 2021, the global economy has rebounded since the launch of vaccination programs in many countries and is gradually emerging from the haze of the Novel Coronavirus (COVID-19) pandemic. This became an important driving force for China's export growth. In particular, many manufacturing industries in Europe resumed production, which is a strong support factor to the export of DS.

With the rapid recovery of the manufacturing industry in Europe and North America, the Group has successfully absorbed the rapid recovery of overseas demand. In the first half of 2021, revenue from export sales of DS recorded a significant increase of 18.2%, reaching RMB472,244,000 (1H2020: RMB399,527,000).

In order to catch up with the increase in export orders before the cancellation of export VAT return policy, the Group adjusted its production capacity and concentrated its production capacity to cope with the increase in export orders, resulting in a decrease of 10.5% in domestic revenue to RMB660,652,000 (1H2020: RMB738,021,000).

Overall, sales of the DS segment remained relatively stable at RMB1,132,896,000 (1H2020: RMB1,137,548,000).

Management Discussion and Analysis

HSS – accounted for approximately 16% of the Group's revenue in 1H2021

	For the six months ended 30 June					
	2021		2020		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**280,172**	**65.5**	233,194	65.1	46,978	20.1
Export	**147,643**	**34.5**	125,086	34.9	22,557	18.0
	427,815	**100.0**	358,280	100.0	69,535	19.4

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.

With the extensive vaccination rollout in Europe and North America, the manufacturing industries recovered rapidly. Most factories resumed operations gradually. The Group benefited from the recovery of overseas demand.

Despite the orderly recovery of economic activities in Europe and North America under the extensive vaccination rollout, many non-industrial sectors were still adopting the work-from-home policy under the new normal, which helped make the stay-at-home economy a main driving force for sales growth in many parts of the world. Demand for DIY metal cutting tools, which directly drove the demand for HSS, was one that benefited from the stay-at-home economy.

HSS export revenue therefore benefited and increased by 18.0% to RMB147,643,000 in the first half of 2021 (1H2020: RMB125,086,000).

Revenue from the domestic market increased by 20.1% to RMB280,172,000 (1H2020: RMB233,194,000), which was driven by increased domestic demand for high-end HSS material.

In the first half of 2021, as the alloy price continued to rise, the Group raised the price of its products a number of times in response. The average selling price and sales volume of HSS increased by 5.3% and 13.4% respectively, which led to an increase of 19.4% in overall HSS revenue to RMB427,815,000 (1H2020: RMB358,280,000).

Management Discussion and Analysis

Cutting tools – accounted for approximately 18% of the Group's revenue in 1H2021

	For the six months ended 30 June					
	2021		2020		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**144,124**	**31.4**	110,666	27.9	33,458	30.2
Export	**315,095**	**68.6**	285,851	72.1	29,244	10.2
	459,219	**100.0**	396,517	100.0	62,702	15.8

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. High-end carbide tools manufactured by the Group mainly comprised of customised tools.

Driven by domestic and overseas economic growth, the global manufacturing industry was gradually recovering, which continued to spur the growth in demand for machine tools since 2020. Demand for machine tools and cutting tools from Europe and the United States remained strong, resulting in a significant increase in exports in the first half of 2021. Thanks to the Group's leading position in the domestic market and its overseas expansion strategy, the Group once again demonstrated its advantages as a leading enterprise in the first half of 2021. The overall sales volume of cutting tools recorded an increase of 7.4%, and the average selling price also increased by 7.8% driven by the price increase of raw materials. Overall revenue increased by 15.8% to RMB459,219,000 (1H2020: RMB396,517,000).

With the increase in overseas market share, the export sales volume and average selling price increased by 4.8% and 5.2% respectively in the first half of 2021. Export revenue increased by 10.2% to RMB315,095,000 (1H2020: RMB285,851,000). Benefiting from the expansion of domestic manufacturing industries, demand for computer numerical control ("CNC") machine tools and high-end tools increased. Domestic revenue was therefore increased by 30.2% to RMB144,124,000 (1H2020: RMB110,666,000).

Management Discussion and Analysis

Titanium alloy – accounted for approximately 4% of the Group's revenue in 1H2021

	For the six months ended 30 June					
	2021		2020		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**103,827**	**98.9**	89,744	98.8	14,083	15.7
Export	**1,195**	**1.1**	1,073	1.2	122	11.4
	105,022	**100.0**	90,817	100.0	14,205	15.6

The corrosion resistance nature of titanium alloy promoted the extensive applications of titanium alloy in various industries, including aerospace, chemical pipeline equipment, nuclear and ocean industries.

In the first half of 2021, the demand for titanium alloy products returned to growth. With the sustained recovery of the domestic economy, the demand for products from downstream enterprises has gradually improved after the impact of the pandemic. As a result, the revenue contributed by the titanium alloy segment increased by 15.6% to RMB105,022,000 (1H2020: RMB90,817,000).

The domestic titanium industry underwent structural adjustment in 2020. The development towards high-end consumption has achieved strong results, with the proportion from aerospace, marine engineering, high-end chemical industry and sports and leisure gradually increasing. The Group's titanium alloy products have obtained the Quality Management System for Aerospace Certification issued by Bureau Veritas, an international authoritative quality certification body. Titanium alloys have also been listed as key strategic materials whose application is expected to be vigorously promoted. The Group is confident that the application level and acceptance of the Group's products will be further enhanced through the in-depth transformation and upgrading of products from billets to finished products.

Trading of goods

This segment involved the trading of general carbon steel products outside of the Group's production scope. As the Group continued to focus on its principal and core businesses in the first half of 2021, the business volume of commodity trading continued to decrease.

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company increased by 37.7% from RMB211,017,000 in the first half of 2020 to RMB290,537,000 in the first half of 2021. The increase was mainly attributable to the increased gross profit margin of the Group's products which was partially offset by increased research and development effort incurred before the mass production of new powder metallurgy products.

Revenue

Revenue of the Group for the first half of 2021 totalled RMB2,616,873,000, representing an increase of 4.3% when compared with RMB2,509,390,000 in the first half of 2020. The increase in revenue was mainly caused by the increase in revenue from HSS, cutting tools and titanium alloy segments. While revenue from DS segment remained relatively stable, the other three segments recorded an increase of 15.6% to 19.4% in revenue, partly due to increase in raw material prices. The total revenue from the four major production segments increased by 7.1% to RMB2,124,952,000 (1H2020: RMB1,983,162,000). For an analysis of individual segments, please refer to the "Business Review" section.

Management Discussion and Analysis

Cost of sales

The Group's cost of sales decreased from RMB1,967,832,000 for the first half of 2020 to RMB1,950,667,000 for the first half of 2021, representing a decrease of 0.9%. 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 2021, gross margin was 25.5% (1H2020: 21.6%). Set out below is the gross margin for the five segments of the Group for the first half of 2020 and 2021:

	For the six months ended 30 June	
	2021	2020
DS	**30.4%**	27.1%
HSS	**30.6%**	27.9%
Cutting tools	**28.1%**	20.2%
Titanium alloy	**16.8%**	18.1%
Trading of goods	**0.05%**	0.03%

DS

The gross margin of DS increased from 27.1% in the first half of 2020 to 30.4% in the first half of 2021. During the period, average purchase prices of raw materials increased continuously. The Group passed on the increased costs effectively to the customers through responsive price adjustments. In addition, during the upward pricing cycle, existing finished goods were sold at an increased price, which further enhanced the Group's gross profit margin.

HSS

The situation of HSS was largely similar to that of DS's in the first half of 2021. Gross margin of HSS increased from 27.9% in the first half of 2020 to 30.6% in the first half of 2021.

Cutting tools

Gross margin of cutting tools increased from 20.2% in the first half of 2020 to 28.1% in the first half of 2021. During the period, the proportion of complex and high value-added cutting tools products increased by 7.7% in terms of value. These products contributed a higher profit margin to the whole segment. Also, the increased cost of HSS, which was the main raw materials for production of cutting tools, was also passed on to the end customer through price adjustments. This further enhanced the overall gross profit margin.

Titanium alloy

Gross margin of titanium alloy decreased from 18.1% in the first half of 2020 to 16.8% in the first half of 2021. Demand for titanium alloy products began to resume during the period. However, the average selling prices were still under pressure, leading to a shrinking profit margin.

Other income

The Group's other income increased from RMB13,961,000 in the first half of 2020 to RMB48,491,000 in the first half of 2021. The increase was mainly attributable to an increase in government grants received from the local government and interest income from structured deposits.

Management Discussion and Analysis

Distribution expenses

The Group's distribution expenses were RMB80,813,000 (1H2020: RMB44,378,000), representing an increase of 82.1%. Notwithstanding gradual resumption of export sales with the stabilisation of COVID-19 in Europe and North America, freight and related logistic expenses increased compared to the first half of 2020 and the average freight expense also increased due to the tight supply of overseas freight services during this period.

Administrative expenses

For the first half of 2021, the Group's administrative expenses increased to RMB64,168,000 (1H2020: RMB44,591,000). The increase was mainly attributable to (i) local government exempted social insurance contribution during the outbreak of COVID-19 in 2020 which was not available in 2021; and (ii) professional fees incurred for preparation and consultation for spin-off project of TG Tools. For the first half of 2021, administrative expenses as a percentage of revenue was 2.5% (1H2020: 1.8%).

Net finance costs

The Group's net finance costs decreased from RMB71,457,000 in the first half of 2020 to RMB68,035,000 in the first half of 2021, which was the result of repayment of significant amount of bank loans with the other financial liability, which is a contingent redeemable capital contributions in a subsidiary, at a lower cost of fund.

Income tax expense

The Group's income tax expense increased from RMB27,143,000 in the first half of 2020 to RMB36,489,000 in the first half of 2021. The increase was mainly due to an increase in operating income for the period.

Profit for the period

As a result of the factors set out above, the Group's profit increased by 38.2% to RMB294,538,000 for the first half of 2021 from RMB213,120,000 for the first half of 2020. The Group's net profit margin increased from 8.5% in the first half of 2020 to 11.3% in the same period of 2021.

Profit attributable to equity shareholders of the Company

For the first half of 2020, profit attributable to equity shareholders of the Company was RMB290,537,000 (1H2020: RMB211,017,000), representing an increase of 37.7%.

Trade and bills receivable

Net trade and bills receivable decreased from RMB2,017,167,000 as at 31 December 2020 to RMB1,946,872,000 as at 30 June 2021. The provision for doubtful debts of RMB91,034,000 (2020: RMB87,295,000) accounted for 4.5% (2020: 4.1%) of the trade and bills receivable.

Management Discussion and Analysis

INDUSTRY REVIEW

Entering into 2021, the domestic economy made a good start, with GDP growth reaching 12.7%. With the achievements of pandemic prevention and control, the popularisation of COVID-19 vaccines, the gradual normalisation of policies and the recovery of household income, the trend toward sustained and stable recovery has been well maintained. Among them, thanks to the support of national policies, industrial productivity took the lead in recovery, and the overall export performance was better than expected. According to statistics, China's industrial production continued to support economic growth in the first half of 2021, with an increase of 15.9% year-on-year. Under the trend of accelerating industrial transformation and upgrading, the high-tech and equipment manufacturing industries achieved faster growth.

Currently, the United States is benefiting from the large-scale quantitative easing policy and the continuous introduction of active fiscal policies, and its economy has shown a significant recovery. Major developed economies in Europe, such as Britain, Germany, France and Italy, continued to suffer from the economic impacts of the pandemic in the first quarter, resulting weak economic environment, but the recovery of production and consumption activities accelerated in the second quarter under the extensive vaccination programs. For the six month ended 30 June 2021, the United States goods and services trade deficit increased USD135.8 billion, or 46.4% from the same period in 2020, among which exports increased USD150.9 billion or 14.3% while imports increased USD286.7 billion or 21.3%. The widening of trade deficit indicated that the resurgent United States economy drove strong demand for foreign-made goods ahead of the COVID variant surge. It was further proof of how United States consumers and businesses have stepped up spending and investment as the economy has recovered to its pre-COVID-19 size, fuelling demand for imports.

MARKET REVIEW

Looking back at the DS market, in the first half of 2021 the price of special alloy raw materials continued to rise, thus causing an increase in the market price of DS. As the widespread vaccination rollout eased the pandemic in Europe and the United States, the demand for automobiles, household appliances and electronic consumer goods gradually recovered and is expected to resume expansion in 2021. This will lead to an increase in the demand for DS in overseas developed economies. In addition, the market share of Chinese DS enterprises in the domestic high-end DS market continues to increase. As the DS industry has high competition barriers and strong customer stickiness, enterprises will benefit in the long run after entering the supply chain, as the domestic alternative market is pushing the industry into a new stage of high-quality growth.

Cutting tools are the main application market for HSS. In recent years, the transformation and upgrading of the manufacturing industry and the improvement of mechanical properties of processing materials have led to the increasing use and proportion of advanced cutting materials, such as high-performance HSS and carbide. At the same time, the penetration rate of CNC machine tools in China has further increased, and the corresponding increase in consumer demand for high-end cutting tools has driven the demand for high-end HSS. This has led to a continuous increase in the scale of the domestic cutting tool market. With the development of high efficiency cutting, high reliability requirements of CNC tools and metallurgical technology, low-alloy HSS and ordinary HSS in the low-end market will be gradually eliminated, and high-performance HSS will usher in a broader space for development. According to the "Analysis of the Economic Operation of the Machine Tool Industry in the First Quarter of 2021" issued by the China Machine Tool Industry Association, China's export of cutting tools increased by 49.6% to USD830 million compared with the same period in 2020, while new orders for metal-cutting machine tools increased by 111.5% in the same period. This shows that the growth in both export and domestic demand are equally significant.

Management Discussion and Analysis

From the policy point of view, the Chinese government has issued a series of policies to support the development of the special steel industry since 2015, including the inclusion of special steel products in the catalogue of new materials in the 13th Five-Year Plan for the Development of New Materials Industry, and the inclusion of HSS and DS in ***Made-in-China 2025 Plan***, which focuses on the development of advanced basic materials, as well as various policies to boost the manufacturing industry. All of these have added impetus to the high-quality development of the special steel industry. In addition, China has set the important strategic goal of achieving carbon emission peak by 2030 and carbon neutrality by 2060. To this end, the China Iron and Steel Association has launched a collection of special standards for carbon emission peak and carbon neutrality in the iron and steel industry. This will effectively enhance the relevant standards for low-carbon technologies and processes in the iron and steel industry, and help the industry achieve greener and more sustainable development.

ACCOMPLISHMENTS

According to the world ranking of HSS and DS (collectively known as tools steel) released by the world's authoritative SMR Steel and Metal Market Research, the Group ranked first in the world in terms of tools steel products output in 2020. The Group's annual production capacity of tools steel is 250,000 tons, of which the annual output of HSS products was ranked first in the world for 17 consecutive years. Furthermore, according to China Special Steel Enterprises Association, the Group's HSS production capacity ranked first in China for 25 consecutive years.

As a well-known manufacturer of advanced basic materials such as HSS and DS, key strategic materials such as titanium alloy and precision cutting tools, the Group will further accelerate its transformation and upgrading strategy in 2021, ushering in the key strategic development period with the largest investment in high-tech projects since its establishment. The 50,000-ton tools steel production capacity upgrading project, the second phase of powder metallurgy project, the second phase of Thailand project, intelligent powder metallurgy tap project and carbide cutting tool project are all under intensive planning and implementation.

In order to meet the needs of the Group's business development and maintain capital flexibility, the Group conducted a share placement of 200 million shares in May 2021 (with the assistance of a substantial shareholder by way of placing existing shares and subscribing equal number of new shares at the same price). Approximately 7% and 43% of the net proceeds raised, about HKD834 million, will be used to expand the Group's industrial park in Thailand and develop new precision tools products, while the remaining proceeds are intended as general working capital.

The Group's plant in the Rojana Rayong Pluak Daeng Industrial Park, Rayong, Thailand, was completed in September 2020 and commenced mass production in the first quarter of 2021. It is the Group's first overseas factory for highly automated cutting tools, with an annual production capacity of 48 million pieces. Shortly after the commencement of formal operation of the Thailand production line, the Group's products received the acceptance of a customer in May 2021 which served as strong affirmation of the Group's product quality.

As for new precision tools, the Group is committed to the research and development of carbide and powder metallurgy taps. Currently, according to 華經產業研究院 (Huajing Industrial Research*), China's carbide products are of middle and low-grade and not capable of meeting the needs of the domestic high-end manufacturing industry. Therefore, high-end carbide CNC blades and other high-tech, high value-added carbide products have to be imported from abroad. The Group's research and development of carbide and powder taps will bring great benefits to the Group and the special new materials industry in China.

In April 2021, TG Tools, a subsidiary of the Group, formally kicked-off the spin-off listing plan on the A-share market, marking a meaningful milestone for the Group in the capital market.

* *For identification purpose only*

Management Discussion and Analysis

FUTURE OUTLOOK

Operation Strategy

The Group has led the industry with its professional equipment, technology and management advantages, focusing on research and development and cost control for many years, in order to meet the domestic market demand and gain international market share.

Precise strategic layout, efficient execution ability and world-leading technology are the three core pillars of the Group. Looking back at the first half of 2021, the Group continued to implement the strategy of high-quality transformation and development, continuously overcame the difficulties of smelting technology through industry-leading research and development capabilities, and strived to optimise the production process and product structure. With excellent products, the Group promoted the direct sales strategy to deeply bind high-quality customers. At the same time, by virtue of its leading industry position and pioneering advantages in China, the Group will actively extend the industrial supply chain and increase the added value of products to reflect their true value.

Domestic industry development

Currently, China is still in a stable period of economic recovery after the pandemic. Enterprises are pursuing cost reduction and efficiency enhancement and are actively improving production efficiency to match the national pace. Among them, the steel and special new materials industry continued to record a simultaneous increase in production capacity and output, triggering a rise in commodity prices. Since the beginning of the year, prices for the Group's DS and HSS products have also risen eight consecutive times, including two increases in June 2021, due to the rising prices of raw materials such as scrap steel, ferrovanadium and other auxiliary materials.

The joint meeting of the National Development and Reform Commission and other departments in May 2021 emphasised "guaranteeing supply and stabilising prices", minimising the impact of market sentiment and speculation on commodity prices, and adjusting the pressure brought about by the imbalance between supply and demand in the industry with positive policy signals. At the same time, it is expected that, with the overall supply easing in the second half of the year after the Central Bank lowered the reserve requirement ratio, the demand for infrastructure, construction machinery, automobiles and household appliances will further stabilise, and the demand for special steel will maintain an upward trend driven by the continuous increment of high-end manufacturing equipment and the shipbuilding industry.

In order to keep pace with the market demand, the "50,000 Tons Tools Steel Capacity Expansion Project" planned by the Group at the beginning of this year is now being carried out in an orderly manner. The project will mainly focus on high-end tools steel products, including HSS and DS. After the project reaches its planned production capacity, the Group will have an annual production capacity of 300,000 tons of tools steel. The Group will continue to strengthen the research and development of high-end tools steel, so as to enhance the competitiveness of the Group's products.

As a pioneer in the domestic industry, the Group will continue to become a dominant player in the field of tool steel. As the cornerstone of the domestic manufacturing industry, the Group will take solving the "bottleneck" technology at the material end as its core task, actively cooperate with downstream and terminal customisation needs through leading research and development and promote the integration of the industrial supply chain with the overall supply scheme of "material + services".

Management Discussion and Analysis

Export operation

In the first half of 2021, monetary policies in the United States and the Eurozone remained loose, and external demand maintained a relatively rapid growth. Other major overseas steel producing countries, including India and Japan, are still suffering from the pandemic, which has affected the supply side to a certain extent, thus stimulating the increase in China's steel exports. Currently, the growth in China's net steel export volume is relatively stable. In the first five months of 2021, China's cumulative net steel export volume was 24.83 million tons, representing a year-on-year increase of 27% and an increase of 2.5% as compared with the same period in 2019. Net exports are expected to be more stable in the second half of the year as the overseas economy gradually recovers.

Overseas expansion

The Group continued to press ahead its overseas expansion plan despite that waves of pandemic continue to plague the world. The Group is focused on promoting the globalisation strategy to hedge the uncertainties relating to the Sino-US trade conflicts by opening up a wider overseas market. In the second quarter of this year, the factory in Thailand Rojana Rayong Pluak Daeng Industrial Park officially commenced its trial production, and the second phase of the project will soon be launched. This is an important starting point for overseas expansion. For the first half of 2021, the Thailand factory produced a total of 1.95 million pieces of cutting tools, and is expected to gradually achieve an annual output of 48 million pieces.

Product Development Strategy

Powder Metallurgy Industry

In recent years, thanks to the rapid development of the automobile, machinery manufacturing, metal industry, aerospace, instrumentation, hardware tools, engineering machinery, electronic household appliances and high-tech industries, the capacity of powder metallurgy has been expanding, and development opportunities are enormous. The growth of China's powder metallurgy industry is also related to the development and application of new products, new materials, new processes and new equipment, as well as the continuous improvement and innovation of existing products and production processes.

In March 2018, the Group began to plan and prepare its first industrialised powder metallurgy production line in China. The production line with an annual capacity of 2,000 tons was officially completed and put into operation in November 2019, making the successful first step into the powder metallurgy industry. The Group began to gradually expand powder metallurgy production in the first half of 2021. Contract orders have increased significantly since then, and powder metallurgy has become a growth driver for the Group. The Group's distribution of powder metallurgy with a leading supplier of special steel products in Europe, which is also a business partner, has also achieved fruitful results.

The Group will continue to deepen the transformation of high-end products and make unremitting efforts to invest in the research and development of powder metallurgy. It is expected that the second phase of the powder metallurgy production line will be completed in 2022 as planned, with an additional annual production capacity of 3,000 tons. The total production capacity is expected to further increase. At the same time, with the increasing market demand for efficient cutting and CNC tools, it is expected that the proportion of powder metallurgy applications in HSS will further increase significantly. The Group is intensively promoting the application of powder metallurgy HSS cutting tools, including powder metallurgy taps and complex cutting tools. It is expected that the annual production of 10 million powder taps will be completed in 2022, realising import substitution and greatly improving the machine tool processing capacity of China's manufacturing industry.

Management Discussion and Analysis

Carbide Cutting Tools Industry

Cutting tools are the foundation of the machinery manufacturing industry and major technical fields. The quality of cutting tools directly determines the production level of the machinery manufacturing industry and is one of the most important factors for the manufacturing industry to improve production efficiency and product quality. In recent years, the Group has actively sought to upgrade its products and focused on the high-end carbide cutting tools market, providing cutting tools with higher alloy content and higher added value to seize the opportunities brought by the continuous growth of demand for high-end carbide cutting tools in China.

Marketing Strategy

The Group has been investing resources to expand its online sales channels. The Group's products are sold on a number of major e-commerce platforms around the world, including Alibaba, Amazon, eBay, JD.com and Tmall, which further drives the sales of cutting tools. During the pandemic, the e-commerce platforms sales has proved its significance. Compared to the same period last year, overall online sales increased by 51.0%.

Information Technology

In order to cope with the Group's expansion of production capacity, international development, expansion of product lines, more precise and professional production processes and more diversified sales channels, the Group has invested heavily in building a digital information system, "Digital Tiangong", which covers all business areas of the Group. The system completes the digital development of five areas: from sales to payment collection, purchases to payment, planning to resources, manufacturing to costs, and order to delivery. This system effectively improves the performance of network procurement, comprehensively enhance the synergy of the industrial supply chain, greatly enhance the competitiveness of the Group, and make the best preparation for the transformation of the Group to an amoeba management model. The responsive shift of production capacity for DS's export sales was one of the achievements of the system during the first half of 2021.

After 14 months of successful completion of the first phase of the "Digital Tiangong" project, the second phase of the smart manufacturing project was officially launched in June 2021, which involved a wider range of departments and functions. The Group will accelerate its digitalisation and smart development to stay aligned with national smart upgrade strategy, in order to achieve comprehensive management, research and development, as well as overall production technology transformation and upgrade, and to lead the change and development of the industry.

OUR MISSION

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

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

FORWARD LOOKING STATEMENTS

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

Forward looking statements involve inherent risks and uncertainties. Readers, including shareholders and potential 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 2021, the Group's current assets mainly included cash and cash equivalents of RMB2,059,363,000, inventories of RMB1,997,929,000, trade and other receivables of RMB2,155,173,000, time deposits of RMB1,117,712,000 and pledged deposits of RMB153,754,000. The Group's current assets were RMB7,939,812,000 compared to RMB6,609,300,000 as at 31 December 2020, an increase of 20%.

As at 30 June 2021, interest-bearing borrowings of the Group were RMB2,771,094,000 (31 December 2020: RMB3,365,819,000), RMB1,957,094,000 (31 December 2020: RMB2,773,982,000) of which were repayable within one year and RMB814,000,000 (31 December 2020: RMB591,837,000) 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 nil, compared to 32.0% as at 31 December 2020.

As at 30 June 2021, interest-bearing borrowings of RMB1,797,700,000 (31 December 2020: RMB2,046,800,000) were denominated in RMB, USD71,043,419 (31 December 2020: USD90,409,032) were denominated in USD, EUR61,216,273 (31 December 2020: EUR75,226,245) were denominated in EUR and HKD52,716,798 (31 December 2020: HKD149,017,583) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.75% to 4.75% (31 December 2020: 0.75% to 5.66%). Net cash generated from operating activities during the period was RMB342,161,000 (1H2020: RMB450,520,000).

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2021, the Group's net increase in property, plant and equipment amounted to RMB56,083,000 (1H2020: RMB70,158,000). The increase was mainly related to the infrastructure of the "50,000 Tons Tools Steel Capacity Expansion Project". As at 30 June 2021, capital commitments were RMB520,960,000 (31 December 2020: RMB544,430,000), of which RMB112,100,000 (31 December 2020: RMB69,910,000) was contracted for and RMB408,860,000 (31 December 2020: RMB474,520,000) was authorised but not contracted for. The majority of capital commitments related to smelting, forging and grinding facilities for the "50,000 Tons Tools Steel Capacity Expansion Project".

PLACING OF SHARES AND USE OF PLACING PROCEEDS

The Group placed an aggregate of 200,000,000 ordinary shares of par value of USD0.0025 each and representing 7.16% of the enlarged issued share capital of the Company at the placing price of HKD4.22 per share to not less than six placees (the "Placing"). The aggregate nominal value of the placing shares under the Placing was USD500,000. The placing of the 200,000,000 shares was completed on 7 May 2021 with the net proceeds of approximately HKD834 million representing a net issue price of approximately HKD4.215 per share. The market price of the placing share was HKD4.88 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 4 May 2021, the last full trading day immediately before the time at which the Placing and Subscription Agreement was signed.

The Directors considered that the Placing represent an opportunity to raise capital for the Company, broaden its shareholder base, increase the liquidity of the shares, strengthen the capital base and to enhance the financial position and net assets base for the long-term development and growth of the Group.

The Directors believed that with the accelerated pace of transformation and upgrading of the PRC's manufacturing industry, as well as the rising standard of intelligent manufacturing and digital control equipment, high-end precision cutting tools has a promising prospect with a strong demand from the manufacturing industry. With the technological breakthroughs in cutting tools materials and the advantages of local technical guidance and after-sales service, the substitution of imported high-end precision cutting tools by the domestic ones has been gradually taking place. The Directors hoped to use the opportunity of the Placing to advance the deployment of the Group's new products and production capabilities in the high-end precision cutting tools industry, so as to meet the growing demand in the future.

The proceeds from the Placing have been used as follows:

Intended use of proceeds from the Placing	Actual use of proceeds (as at 30 June 2021)	Proposed use of the remaining unutilised proceeds (as at 30 June 2021)
(i) Expansion of the industrial park of the Group in Thailand	Nil was used in the expansion of the industrial park of the Group in Thailand	The remaining unutilised proceeds was HKD59.9 million
(ii) Development of the new precision tools products of the Group	HKD12.0 million was used in development of the new precision tools products of the Group	The remaining unutilised proceeds was HKD347.2 million
(iii) Replenishment of Group's working capital to procure raw materials and meet any cashflow requirements that may arise from daily operations	HKD138.1 million was used as working capital and for daily operation, including payment of electricity, staff salaries and procurement of raw materials	The remaining unutilised proceeds was HKD277.2 million

The unutilised proceeds are expected to be fully utilised by 31 December 2022.

RISK AND PREVENTION

Operating Exposure

The pandemic undoubtedly had a profound impact on the Chinese economy. Affected by the various prevention and control measures, the movement of people and business activities have been severely restricted, causing disruptions as well as raw materials and labor shortages in the logistics and manufacturing industries, especially those labor-intensive segments. In the midst of the pandemic, China issued multiple policies to promote the coordinated resumption of work and production of leading enterprises and key links to ensure China's important position in the global manufacturing industry. The pandemic also stimulated the rapid development of smart manufacturing. The promotion of automation and intelligent production, the adoption of more high-tech technologies to effectively respond to labor fluctuations, the high-end parts and components, the intelligent logistics, and the strengthening of the supply chain's anti-risk capabilities have also received high attention.

During this period, the Group made multiple deployments in operations to respond to the rapid changes in the market. In response to the rapid increase in global demand for anti-pandemic products, the Group provided machinery and materials for the manufacturing of such products which successfully offset the risks of a business downturn. In addition, the Group's efforts in overseas business expansion continued under the pandemic. The smooth completion and production commencement of the Thailand project, as well as the launch of the Europe powder metallurgy distribution agreement, have laid a solid foundation for the Group's overseas business, which will help diversify the various operational risks brought by the high concentration of operating regions. In addition, the continuous breakthrough of powder metallurgy "bottleneck" technology and the successful research and development of new carbide tools have also injected strong momentum for the Group's medium and long-term development.

Despite the new waves of pandemic and the uncertainties in economic development, the Group has successfully resisted the various challenges and difficulties by virtue of its decisive and precise strategic deployment, leading industry position, superior quality products and world-class research and development capabilities.

Management Discussion and Analysis

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (64.2% (1H2020: 67.7%)). 35.8% (1H2020: 32.3%) 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 2021, the Group pledged certain bank deposits amounting to approximately RMB153,754,000 (31 December 2020: RMB384,700,000) and no trade receivables (31 December 2020: RMB160,835,000). Details are set out in the notes to the interim financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2021, the Group employed 3,071 employees (31 December 2020: 3,008). 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 2021 (31 December 2020: No material contingent liabilities).

NO MATERIAL CHANGE

Save as disclosed in this report, information in relation to the Group's performance in the period from 1 January 2021 to 30 June 2021 (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 2020 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 2021 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 2020).

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

As at 30 June 2021, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code 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	774,758,000 (L)	27.72
	Beneficial owner	6,800,000 (L)	0.24
			27.96
Mr. Wu Suojun	Beneficial owner	2,400,000 (L)	0.09
Mr. Yan Ronghua	Beneficial owner	1,500,000 (L)	0.05
Mr. Jiang Guangqing	Beneficial owner	900,000 (L)	0.03

Notes:

As at 30 June 2021,

(1) Tiangong Holdings Company Limited ("THCL") held 774,758,000 ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 774,758,000 shares held by THCL.

(L) Represents long position.

(b) Interests in the shares of associated 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 2021, 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 (%)
Yu Yumei[1]	Spousal interest[2]	781,558,000 (L)	27.96
THCL[1]	Beneficial owner	774,758,000 (L)	27.72
Zhu Zefeng	Interests of controlled corporations[3 and 4]	668,700,521(L)	23.92
	Beneficial owner	1,500,000 (L)	0.06
			23.98
Niu Qiu Ping	Spousal interest[5]	670,200,521 (L)	23.98
Sky Greenfield Investment Limited	Beneficial owner[3]	624,768,521 (L)	22.35
	Interests of controlled corporations[4]	43,932,000 (L)	1.57
			23.92

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

(b) Interests in the shares of associated corporation

Substantial shareholder's name	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Ms. Yu Yumei	THCL	Beneficial owner Spousal interest(1)	5,489 (L) 44,511 (L)	10.98 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.

Report of the Directors

SHARE OPTIONS SCHEME

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

Report of the Directors

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.

The remaining 30,000,000 shares were vested on 31 March 2020. All share options for these 30,000,000 shares were exercised between 23 November 2020 to 30 December 2020.

There were no share options granted during the six months ended 30 June 2021 and therefore, there were no outstanding share options during the six months ended 30 June 2021.

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 HKD2.22 to 5.44.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2021, 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 1 June 2021 due to the COVID-19 pandemic.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 18 August 2021 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 2021 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

Report of the Directors

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 resigned as an independent director of Gridsum Holding Inc. (GSUM. US) on 31 March 2021.

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 (the "Facilities Agreement") with a Hong Kong licensed bank relating to:

– Term loan facility amounted to USD15,000,000;

– Dividend loan facility amounted to HKD152,601,570; and

– Business card facility amounted to USD300,000

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. As at the date of this report, the aforementioned term loan facility and dividend loan facility were fully repaid.

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 51.94% 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

19 August 2021

Independent Review Report

Review report to the board of directors of
Tiangong International Company Limited
for the six months ended 30 June 2021
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 24 to 54 which comprises the consolidated statement of financial position of Tiangong International Company Limited ("the Company") as at 30 June 2021 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 2021 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

19 August 2021

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2021 (unaudited)

	Note	Six months ended 30 June 2021 RMB'000	2020 RMB'000
Revenue	3	**2,616,873**	2,509,390
Cost of sales		**(1,950,667)**	(1,967,832)
Gross profit		**666,206**	541,558
Other income	4	**48,491**	13,961
Distribution expenses		**(80,813)**	(44,378)
Administrative expenses		**(64,168)**	(44,591)
Research and development expenses		**(155,551)**	(105,133)
Other expenses	5	**(29,475)**	(49,114)
Profit from operations		**384,690**	312,303
Finance income		**10,104**	13,732
Finance expenses		**(78,139)**	(85,189)
Net finance costs	6(a)	**(68,035)**	(71,457)
Share of profits of associates		**5,674**	2,234
Share of profits/(losses) of joint ventures		**8,698**	(2,817)
Profit before income tax	6	**331,027**	240,263
Income tax	7	**(36,489)**	(27,143)
Profit for the period		**294,538**	213,120
Attributable to:			
Equity shareholders of the Company		**290,537**	211,017
Non-controlling interests		**4,001**	2,103
Profit for the period		**294,538**	213,120
Earnings per share (RMB)	8		
Basic		**0.110**	0.082
Diluted		**0.110**	0.082

The notes on pages 31 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 19(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2021 (unaudited)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period	**294,538**	213,120
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 RMB1,271,000 (2020: net of tax of RMB2,355,000)) (non-recycling)	**21,888**	(13,345)
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	**(386)**	(4,807)
Other comprehensive income for the period	**21,502**	(18,152)
Total comprehensive income for the period	**316,040**	194,968
Attributable to:		
Equity shareholders of the Company	**311,897**	192,865
Non-controlling interests	**4,143**	2,103
Total comprehensive income for the period	**316,040**	194,968

The notes on pages 31 to 54 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2021 (unaudited)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	9	**4,192,629**	4,136,546
Lease prepayments		**145,735**	147,576
Intangible assets		**17,892**	18,842
Goodwill		**21,959**	21,959
Interest in associates		**68,440**	55,573
Interest in joint ventures		**35,908**	28,350
Other financial assets	10	**155,691**	135,810
Deferred tax assets		**48,421**	44,170
		4,686,675	4,588,826
Current assets			
Financial assets at fair value through profit or loss	11	**455,881**	877,117
Inventories	12	**1,997,929**	1,688,371
Trade and other receivables	13	**2,155,173**	2,481,866
Pledged deposits	14	**153,754**	384,700
Time deposits		**1,117,712**	350,000
Cash and cash equivalents	15	**2,059,363**	827,246
		7,939,812	6,609,300
Current liabilities			
Interest-bearing borrowings	16	**1,957,094**	2,773,982
Trade and other payables	17	**1,695,367**	1,618,745
Current taxation		**37,113**	64,138
Other financial liability	18	**1,439,750**	350,000
		5,129,324	4,806,865
Net current assets		**2,810,488**	1,802,435
Total assets less current liabilities		**7,497,163**	6,391,261
Non-current liabilities			
Interest-bearing borrowings	16	**814,000**	591,837
Deferred income		**54,194**	58,082
Deferred tax liabilities		**102,046**	101,033
		970,240	750,952
Net assets		**6,526,923**	5,640,309

Consolidated Statement of Financial Position

as at 30 June 2021 (unaudited)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Capital and reserves			
Share capital	19	**49,399**	46,186
Reserves		**6,218,296**	5,424,038
Total equity attributable to equity shareholders of the Company		**6,267,695**	5,470,224
Non-controlling interests		**259,228**	170,085
Total equity		**6,526,923**	5,640,309

Approved and authorised for issue by the board of directors on 19 August 2021.

Zhu Xiaokun
Director

Yan Ronghua
Director

The notes on pages 31 to 54 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2021 (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 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	19(a)	–	–	–	–	–	–	–	–	–	(140,013)	–	(140,013)
Repurchase of own shares	19(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
Balance at 1 July 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
Changes in equity for the six months ended 31 December 2020													
Profit for the period		–	–	–	–	–	–	–	–	–	326,007	1,195	327,202
Other comprehensive income		–	–	–	–	–	11,602	–	8,505	–	–	–	20,107
Total comprehensive income		–	–	–	–	–	11,602	–	8,505	–	326,007	1,195	347,309
Dividends approved in respect of the previous year	19(a)	–	–	–	–	–	–	–	–	–	5,922	–	5,922
Transfer to reserve	19(c)(vi)	–	–	–	–	–	–	–	–	182,237	(182,237)	–	–
Exercise of share options	19(d)(ii)	492	45,946	–	(8,517)	–	–	–	–	–	–	–	37,921
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	(19,412)	19,412	–	–
Balance at 31 December 2020		46,186	2,066,883	564	61,524	91,925	(52,017)	–	53,570	837,422	2,364,167	170,085	5,640,309

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2021 (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 2021		46,186	2,066,883	564	61,524	91,925	(52,017)	–	53,570	837,422	2,364,167	170,085	5,640,309
Changes in equity for the six months ended 30 June 2021													
Profit for the period		–	–	–	–	–	–	–	–	–	290,537	4,001	294,538
Other comprehensive income		–	–	–	–	–	(309)	–	21,669	–	–	142	21,502
Total comprehensive income		–	–	–	–	–	(309)	–	21,669	–	290,537	4,143	316,040
Dividends approved in respect of the previous year	19(a)	–	–	–	–	–	–	–	–	–	(204,594)	–	(204,594)
Placing and subscription of shares	19(d)(iii)	3,213	686,955	–	–	–	–	–	–	–	–	–	690,168
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	85,000	85,000
Disposal of equity investments at fair value through other comprehensive income		–	–	–	–	–	–	–	(9,633)	–	9,633	–	–
Balance at 30 June 2021		49,399	2,753,838	564	61,524	91,925	(52,326)	–	65,606	837,422	2,459,743	259,228	6,526,923

The notes on pages 31 to 54 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2021 (unaudited)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**407,642**	482,290
Tax paid	**(65,481)**	(31,770)
Net cash generated from operating activities	**342,161**	450,520
Investing activities		
Payments for the purchase of property, plant and equipment and lease prepayments	**(217,618)**	(197,705)
Other cash flows (used in)/generated from investing activities	**(91,245)**	50,908
Net cash used in investing activities	**(308,863)**	(146,797)
Financing activities		
Proceeds from new interest-bearing borrowings	**2,711,006**	2,748,756
Repayments of interest-bearing borrowings	**(3,305,731)**	(2,764,539)
Proceeds from contingent redeemable capital contributions recognised as other financial liability	**1,065,000**	–
Capital contribution from non-controlling shareholders	**85,000**	–
Proceeds from placing and subscription	**690,168**	–
Payments for repurchase of shares	**–**	(8,932)
Interest paid	**(54,182)**	(85,365)
Net cash generated from/(used in) financing activities	**1,191,261**	(110,080)
Net increase in cash and cash equivalents	**1,224,559**	193,643
Cash and cash equivalents at 1 January	**827,246**	398,017
Effect of foreign exchange rates changes	**7,558**	3,126
Cash and cash equivalents at 30 June	**2,059,363**	594,786

The notes on pages 31 to 54 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"). The interim financial report was authorised for issue on 19 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 23.

The financial information relating to the financial year ended 31 December 2020 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 2020. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2020. 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

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform Phase 2

- Amendment to IFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021

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

Notes to the Unaudited Interim Financial Report

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	
	2021	2020
	RMB'000	RMB'000
DS	**1,132,896**	1,137,548
HSS	**427,815**	358,280
Cutting tools	**459,219**	396,517
Titanium alloy	**105,022**	90,817
Trading of goods	**491,921**	526,228
	2,616,873	2,509,390

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 2021, the Group's customer base is diversified and includes one customer (six months ended 30 June 2020: one customer) with whom transactions exceeded 10% of the Group's revenue. For the six months ended 30 June 2021, revenues from trading of goods to this customer amounted to approximately RMB263,927,000 (six months ended 30 June 2020: RMB526,228,000) and arose in the PRC.

(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 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.

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

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

Segment assets include all tangible assets, intangible assets and current assets with the exception of interest in associates, interest in joint ventures, other financial assets, financial assets at fair value through profit or loss, pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other head office and corporate assets. Segment liabilities include 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, other financial liabilities, deferred tax liabilities and other head office and corporate liabilities.

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

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

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

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the period ended 30 June 2021 and 2020 is set out below.

	Six months ended 30 June 2021					
	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	1,132,896	427,815	459,219	105,022	491,921	2,616,873
Inter-segment revenue	–	143,285	–	–	–	143,285
Reportable segment revenue	1,132,896	571,100	459,219	105,022	491,921	2,760,158
Reportable segment profit (adjusted EBIT)	189,714	134,044	93,819	12,235	254	430,066

	As at 30 June 2021					
	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	4,470,074	2,045,323	1,462,117	520,081	8	8,497,603
Reportable segment liabilities	1,034,453	448,206	180,803	57,648	81	1,721,191

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

	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 31 December 2020					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	4,639,627	1,998,369	1,285,545	521,917	7	8,445,465
Reportable segment liabilities	1,018,505	339,601	206,729	71,653	–	1,636,488

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 2021 RMB'000	2020 RMB'000
Reportable segment revenue	**2,760,158**	2,639,881
Elimination of inter-segment revenue	**(143,285)**	(130,491)
Consolidated revenue	**2,616,873**	2,509,390

Profit	Six months ended 30 June 2021 RMB'000	2020 RMB'000
Reportable segment profit	**430,066**	390,004
Net finance costs	**(68,035)**	(71,457)
Share of profits of associates	**5,674**	2,234
Share of profits/(losses) of joint ventures	**8,698**	(2,817)
Other unallocated head office and corporate expenses	**(45,376)**	(77,701)
Consolidated profit before income tax	**331,027**	240,263

Assets	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Reportable segment assets	**8,497,603**	8,445,465
Interest in associates	**68,440**	55,573
Interest in joint ventures	**35,908**	28,350
Other financial assets	**155,691**	135,810
Deferred tax assets	**48,421**	44,170
Financial assets at fair value through profit or loss	**455,881**	877,117
Pledged deposits	**153,754**	384,700
Time deposits	**1,117,712**	350,000
Cash and cash equivalents	**2,059,363**	827,246
Other unallocated head office and corporate assets	**33,714**	49,695
Consolidated total assets	**12,626,487**	11,198,126

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 2021 RMB'000	At 31 December 2020 RMB'000
Reportable segment liabilities	**1,721,191**	1,636,488
Interest-bearing borrowings	**2,771,094**	3,365,819
Current taxation	**37,113**	64,138
Deferred tax liabilities	**102,046**	101,033
Other financial liability	**1,439,750**	350,000
Other unallocated head office and corporate liabilities	**28,370**	40,339
Consolidated total liabilities	**6,099,564**	5,557,817

(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 2021 RMB'000	2020 RMB'000
The PRC	**1,680,697**	1,697,854
North America	**367,417**	363,039
Europe	**387,223**	293,257
Asia (other than the PRC)	**166,720**	138,061
Others	**14,816**	17,179
Total	**2,616,873**	2,509,390

Notes to the Unaudited Interim Financial Report

4 OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Government grants	**24,288**	7,419
Sales of scrap materials	**3,462**	1,114
Net gains on disposal of property, plant and equipment	**–**	331
Dividends income from listed securities	**4,865**	3,580
Realised and unrealised gains on structured deposits	**11,881**	–
Net realised and unrealised gains on trading securities	**3,577**	299
Others	**418**	1,218
	48,491	13,961

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 RMB20,400,000 (six months ended 30 June 2020: RMB4,165,000) from the local government as a reward for their contribution to the local economy and to encourage technology innovation. TG Tools, TG Aihe and TG Tech also recognised amortisation of government grants related to assets of RMB3,888,000 (six months ended 30 June 2020: RMB3,254,000) during the six months ended 30 June 2021.

5 OTHER EXPENSES

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Provision for loss allowance on trade receivables and other receivables	**3,213**	29,900
Net losses on disposal of property, plant and equipment	**9,242**	–
Net foreign exchange losses	**16,245**	17,018
Charitable donations	**700**	1,625
Others	**75**	571
	29,475	49,114

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 2021 RMB'000	2020 RMB'000
Interest income		**(10,104)**	(13,732)
Finance income		**(10,104)**	(13,732)
Interest on bank loans		**61,689**	96,138
Interest arising on other financial liability	18	**24,750**	–
Less: interest expenses capitalised into property, plant and equipment under construction	9	**(8,300)**	(10,949)
Finance expenses		**78,139**	85,189
Net finance costs		**68,035**	71,457

(b) Other items

	Note	Six months ended 30 June 2021 RMB'000	2020 RMB'000
Cost of inventories*		**1,950,667**	1,967,832
Depreciation		**145,028**	126,870
Amortisation of lease prepayments		**1,841**	1,448
Amortisation of intangible assets		**950**	–
Provision for write-down of inventories	12	**9,379**	5,607
Provision for loss allowance on trade receivables and other receivables	13	**3,213**	29,900

* Cost of inventories includes RMB127,791,000 (six months ended 30 June 2020: RMB105,143,000) 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.

Notes to the Unaudited Interim Financial Report

7 INCOME TAX

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax		
Provision for PRC Income Tax	**37,112**	33,176
Provision/(reversal) for Hong Kong Profits Tax	**738**	(1,294)
Provision for Thailand Profits Tax	**606**	438
	38,456	32,320
Deferred tax		
Origination and reversal of temporary differences	**(1,967)**	(5,177)
	36,489	27,143

(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, Precision Tools, TG Tech and Weijian Tools Technology Company Limited ("Weijian Tools") are subject to a preferential income tax rate of 15% in 2021 available to enterprises which qualify as a High and New Technology Enterprise (2020: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2020: 25%).

(c) Hong Kong Profits Tax has been provided for Tiangong Development Hong Kong Company Limited ("TG Development") at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2021.

(d) Thailand Profits Tax has been provided for Tiangong Special Steel Company Limited and Tiangong Precision Tools (Thailand) Company Limited at the rate of 20% on the estimated assessable profits arising in Thailand for the six months ended 30 June 2021.

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 RMB290,537,000 (six months ended 30 June 2020: RMB211,017,000) and the weighted average of 2,649,444,444 ordinary shares in issue during the interim period (six months ended 30 June 2020: 2,568,842,000).

(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2021 and 2020 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the periods.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of plant and equipment at a cost of RMB209,318,000 (six months ended 30 June 2020: RMB197,705,000), excluding capitalised borrowing costs of RMB8,300,000 (six months ended 30 June 2020: RMB10,949,000). There were no material disposals of property, plant and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)			
– Listed in the PRC	(i)	**123,113**	102,950
– Unlisted equity securities	(ii)	**7,940**	7,940
Financial assets measured at fair value through profit or loss (FVPL)			
– Unlisted units in investment fund	(iii)	**24,638**	24,920
		155,691	135,810

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 RMB4,795,000 were received from these investments during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB3,580,000).

(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 2021 (six months ended 30 June 2020: 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 in or further invested in the industrial and technology sectors. Dividends of RMB65,000 were received from this investment during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

Notes to the Unaudited Interim Financial Report

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Trading securities (Note 20(a))	(i)	**1,559**	19,528
Structured deposits (Note 20(a))	(ii)	**454,322**	857,589
		455,881	877,117

Notes:

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

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

12 INVENTORIES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Raw materials	**64,691**	159,384
Work in progress	**1,121,571**	873,208
Finished goods	**811,667**	655,779
	1,997,929	1,688,371

During the six months ended 30 June 2021, the Group recognised a write-down of RMB9,379,000 (six months ended 30 June 2020: RMB5,607,000) 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.

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Trade receivables	**1,141,360**	1,253,802
Bills receivable	**896,546**	850,660
Less: loss allowance	**(91,034)**	(87,295)
Net trade and bills receivable	**1,946,872**	2,017,167
Prepayments	**133,381**	338,813
Non-trade receivables	**78,908**	130,400
Less: loss allowance	**(3,988)**	(4,514)
Net prepayments and non-trade receivables	**208,301**	464,699
	2,155,173	2,481,866

No trade receivables as at 30 June 2021 (2020: RMB160,835,000) has been pledged to a bank as security for the Group's bank loans as disclosed in Note 16.

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 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	**1,513,155**	1,551,164
4 to 6 months	**125,629**	150,412
7 to 12 months	**136,079**	152,501
1 to 2 years	**169,812**	160,480
Over 2 years	**2,197**	2,610
	1,946,872	2,017,167

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.

Notes to the Unaudited Interim Financial Report

14 PLEDGED DEPOSITS

As at 30 June 2021, bank deposits of RMB153,754,000 (2020: RMB384,700,000) 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.

15 CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 30 June 2021 are cash at bank and on hand.

16 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current			
Secured bank loans	(i)	**135,660**	456,564
Unsecured bank loans	(ii)	**1,168,152**	1,466,974
Current portion of non-current unsecured bank loans		**653,282**	850,444
		1,957,094	2,773,982
Non-current			
Unsecured bank loans	(iii)	**1,467,282**	1,442,281
Less: Current portion of non-current unsecured bank loans		**(653,282)**	(850,444)
		814,000	591,837
		2,771,094	3,365,819

Notes:

(i) The current bank loans were secured by certain sales contracts at annual interest rates ranging from 0.75% to 0.77% (2020: 0.75% to 5.66%) per annum and were repayable within one year.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 0.90% to 4.74% (2020: 0.90% to 5.22%) per annum and were repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 4.05% to 4.75% (2020: 2.70% to 5.25%) per annum.

16 INTEREST-BEARING BORROWINGS (continued)

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 year	**653,282**	850,444
Over 1 year but within 2 years	**195,000**	516,837
Over 2 years but less than 5 years	**619,000**	75,000
	1,467,282	1,442,281

As at 30 June 2021, 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 2021, none of the covenants relating to drawn down facilities had been breached (2020: None).

17 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 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	**955,110**	695,190
4 to 6 months	**214,261**	200,952
7 to 12 months	**87,631**	477,115
1 to 2 years	**11,875**	15,044
Over 2 years	**48,852**	35,297
Total trade and bills payable	**1,317,729**	1,423,598
Contract liabilities	**37,289**	37,351
Dividends payable	**204,594**	–
Non-trade payables and accrued expenses	**135,755**	157,796
	1,695,367	1,618,745

18 OTHER FINANCIAL LIABILITY

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Contingent redeemable capital contributions in a subsidiary	**1,439,750**	350,000

On 28 December 2020, the Company, TG Tools, Jurong Tiangong New Materials Technology Company Limited, China Tiangong (Hong Kong) Company Limited, Precision Tools, TG Aihe, Weijian Tools, Jiangsu Tiangong New Materials Company Limited, TG Development and certain third party investors (the "Investors") entered into an investment agreement, pursuant to which the Investors will invest RMB1,415,000,000 to acquire 16.65% of the equity interest in TG Tools (collectively referred to as "the Investment in TG Tools"). The Investors are entitled to the same voting rights and dividend rights as other equity holders of TG Tools, whereas certain special rights in TG Tools including redemption, anti-dilution and preferential liquidation rights are granted to the Investors. As at 30 June 2021, the Group received capital contributions of RMB1,415,000,000 from the Investors.

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

19 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:

	2021 RMB'000	2020 RMB'000
Dividends in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0732 per share (approved and paid during the six months ended 30 June 2020: RMB0.0545 per share)	**204,594**	140,013

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 2020).

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Purchase of own shares

During the six months period ended 30 June 2020, 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 amount paid RMB'000
June 2020	4,050,000	2.28	2.15	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) Nature and purpose of reserves

(i) Share premium account and Capital redemption reserve

The Share premium account represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares or the consideration paid for the repurchased shares of the Company.

Under the Companies Law of the Cayman Islands, the Share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to repay its debts as they fall due in the ordinary course of business.

Capital redemption reserve represents the par value of shares repurchased by the Company pursuant to section 37 of the Cayman Islands Companies Law.

(ii) Capital reserve

The Capital reserve comprises the following:

- Waived payables due to the Group in connection with the acquisition of land use rights and plant in 2007. These waivers of liabilities by the Group were regarded as equity transactions and recorded in the Capital reserve account;

- The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments; and

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

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Nature and purpose of reserves (continued)

(iii) Merger reserve

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

(iv) Exchange reserve

The Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of Hong Kong subsidiaries and overseas equity-accounted investees.

(v) Fair value reserve (non-recycling)

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

(vi) PRC statutory reserves

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

General reserve fund

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

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

Enterprise expansion fund

The Enterprise expansion fund can be used to convert into Share capital and to develop business.

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Share capital

(i) Issued and fully paid share capital

Authorised:

	2021 and 2020 No. of Shares ('000)	Amount USD '000
Ordinary shares of USD0.0025 each (2020: USD0.0025)	**4,000,000**	10,000

Ordinary shares issued and fully paid:

	2021		
	No. of shares ('000)	**Amount USD '000**	**RMB equivalent '000**
At 1 January	**2,595,000**	**6,487**	**46,186**
Placing and subscription of shares	**200,000**	**500**	**3,213**
At 30 June	**2,795,000**	**6,987**	**49,399**

	2020		
	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	2,569,050	6,422	45,766
Exercise of share options	30,000	75	492
Repurchase of own shares	(4,050)	(10)	(72)
At 31 December	2,595,000	6,487	46,186

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

On 23 November 2020, 29 December 2020 and 30 December 2020, 150,000, 24,292,000 and 5,558,000 options were respectively exercised to subscribe for a total of 30,000,000 ordinary shares in the Company at a consideration of HKD45,000,000, of which HKD585,000 (equivalent to RMB492,000 or USD75,000) was credited to Share capital and HKD44,415,000 (equivalent to RMB37,429,000) was credited to the Share premium account. RMB8,517,000 was transferred from the Capital reserve to the Share premium account.

19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Share capital (continued)

(iii) Placing and subscription of shares

On 7 May 2021 and 12 May 2021, respectively, the Group completed a placement and subscription to subscribe for a total of 200,000,000 ordinary shares in the Company at a consideration of HKD834,301,000, of which HKD3,884,000 (equivalent to RMB3,213,000 or USD500,000) was credited to Share capital and HKD830,417,000 (equivalent to RMB686,955,000) was credited to the Share premium account.

(e) Capital management

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

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

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings), 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 2021 and 31 December 2020 were as follows:

	Note	**At 30 June 2021 RMB'000**	At 31 December 2020 RMB'000
Current liabilities:			
Interest-bearing borrowings	16	**1,957,094**	2,773,982
Non-current liabilities:			
Interest-bearing borrowings	16	**814,000**	591,837
Total debt		**2,771,094**	3,365,819
Less: Cash and cash equivalents	15	**(2,059,363)**	(827,246)
Adjusted net debt		**711,731**	2,538,573
Total equity		**6,526,923**	5,640,309
Less: Proposed dividends		**–**	(187,958)
Adjusted capital		**6,526,923**	5,452,351
Adjusted net debt-to-capital ratio		**11%**	47%

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2021	Fair value measurement at 30 June 2021 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
– Listed equity securities – SESH	74,763	74,763	–	–
– Listed equity securities – NEEQ	48,350	–	–	48,350
– Unlisted equity securities	7,940	–	–	7,940
– Unlisted units in investment fund	24,638	–	–	24,638
Financial assets at fair value through profit or loss:				
– Listed equity securities	1,559	1,559	–	–
– Unlisted debt securities	454,322	–	454,322	–
Trade and other receivables:				
– Bills receivable	212,163	–	212,163	–

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

(i) Fair value hierarchy (continued)

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

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of structured deposits is calculated by discounting the expected future cash flows. The fair value measurement is negatively correlated to expected return rate.

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

(iii) Information about Level 3 fair value measurements

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 set out 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.

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

(iii) Information about Level 3 fair value measurements (continued)

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

	At 30 June 2021 RMB'000	At 30 June 2020 RMB'000
Unquoted equity securities and units in investment fund:		
At 1 January	**81,210**	69,100
Refund of capital injection	**(282)**	–
Changes in fair value	**–**	–
At 30 June	**80,928**	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.

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

All financial instruments measured at other than fair value carried at cost or amortised cost were not materially different from their fair values as at 30 June 2021 and 31 December 2020.

21 RELATED PARTY TRANSACTIONS

The Group had transactions with Weijian Tools prior to the business combination on 5 December 2020, a company controlled by the controlling shareholder's family member, 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	
	2021 RMB'000	2020 RMB'000
Sales of goods to:		
Joint ventures	**130,921**	119,493
Associates	**181,732**	151,736
Weijian Tools	**–**	4,660
	312,653	275,889

Notes to the Unaudited Interim Financial Report

21 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

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.

(b) Amounts due from related parties

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Joint ventures	**345,399**	378,812
Associates	**85,982**	88,876
	431,381	467,688

(c) Amounts due to related parties

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Associates	**393**	176
Joint ventures	**211**	265
	604	441

22 COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Contracted for	**112,100**	69,910
Authorised but not contracted for	**408,860**	474,520
	520,960	544,430