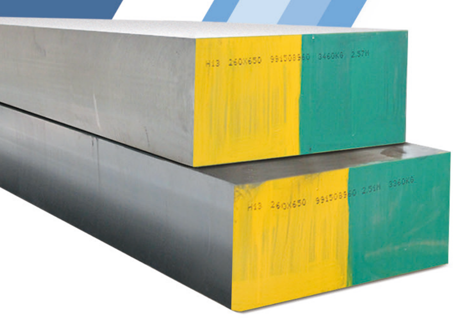
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 826



INTERIM REPORT 2022

* *For identification purpose only*

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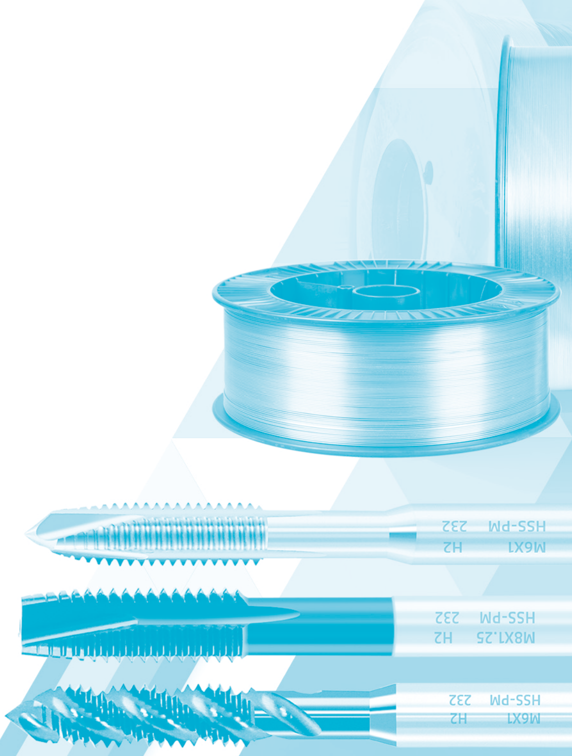

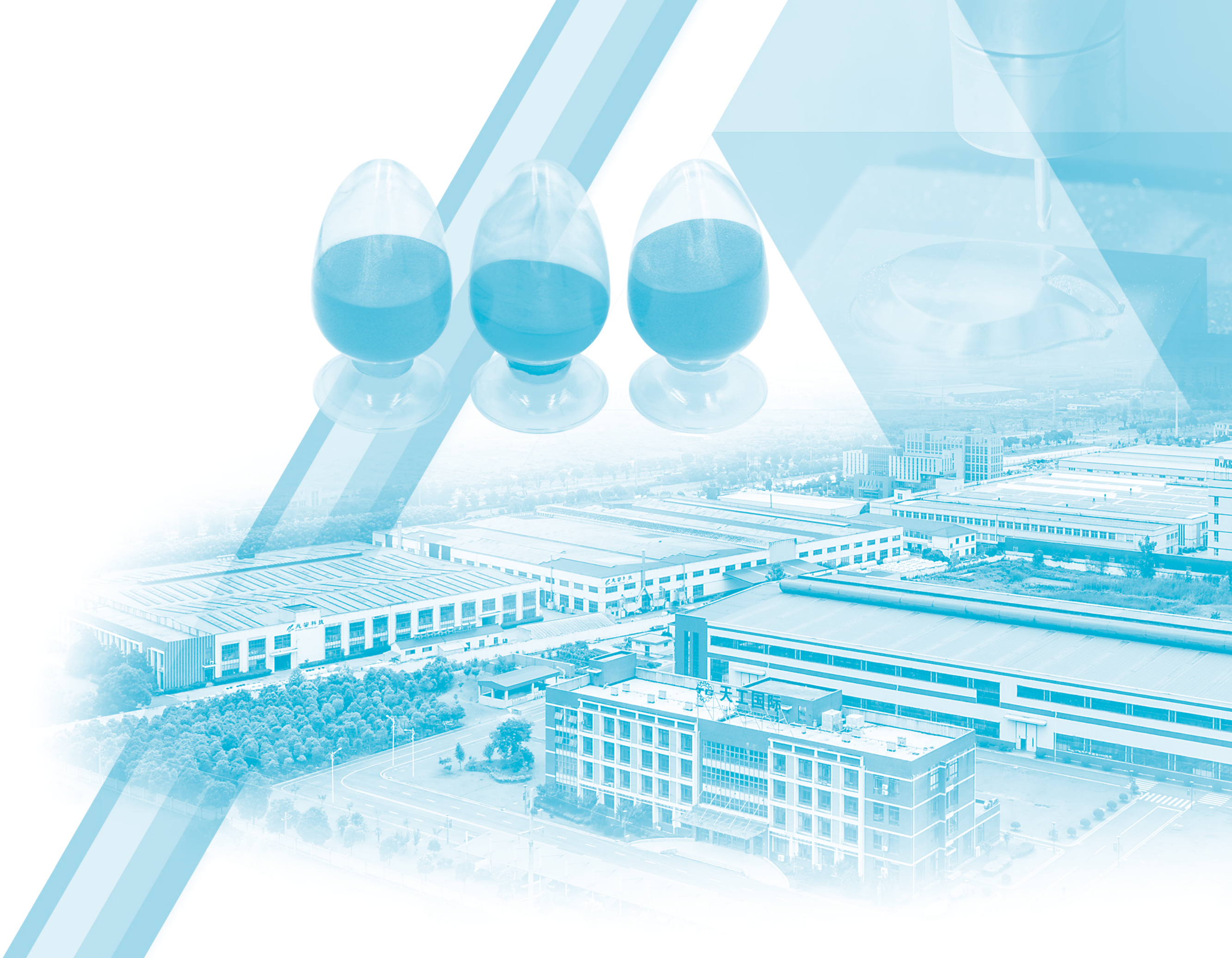

Corporate Information

REGISTERED NAME

Tiangong International Company Limited

CHINESE NAME

天工國際有限公司

STOCK CODE

Hong Kong Stock Exchange: 826

BOARD OF DIRECTORS

Executive Directors

Mr. Zhu Xiaokun *(Chairman)*
Mr. Wu Suojun
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
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REGISTERED OFFICE IN HONG KONG

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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
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HONG KONG LEGAL ADVISER

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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
The Export-Import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

INVESTOR RELATIONS

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Management Discussion and Analysis

BUSINESS REVIEW

	For the six months ended 30 June					
	2022		2021		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Die steel ("DS")	**1,384,435**	**51.8**	1,132,896	43.3	251,539	22.2
High speed steel ("HSS")	**532,480**	**19.9**	427,815	16.3	104,665	24.5
Cutting tools	**418,414**	**15.7**	459,219	17.6	(40,805)	(8.9)
Titanium alloy	**164,459**	**6.2**	105,022	4.0	59,437	56.6
Trading of goods	**–**	**0.0**	491,921	18.8	(491,921)	(100.0)
Others	**170,372**	**6.4**	–	0.0	170,372	–
	2,670,160	**100.0**	2,616,873	100.0	53,287	2.0

DS – accounted for approximately 51.8% of the Group's revenue in 1H2022

	For the six months ended 30 June					
	2022		2021		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**475,137**	**34.3**	660,652	58.3	(185,515)	(28.1)
Export	**909,298**	**65.7**	472,244	41.7	437,054	92.5
	1,384,435	**100.0**	1,132,896	100.0	251,539	22.2

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.

In the first half of 2022, domestic industrial production was affected by the severe lockdown measures implemented under the latest COVID-19 outbreak, resulting in a decline in overall domestic demand for steel. However, despite the impact of the pandemic on domestic downstream demand, China's industrial exports still managed to maintain a relatively high growth rate, with the high-end manufacturing industry performing significantly better than the overall industry. Facing the ongoing geopolitical instability in Europe and the outbreak of the Russia-Ukraine war, there was a shortage of commodity and crude oil supply, which resulted in a continuous increase in prices. As an important global steel supplier and processor, the overall spot price of steel in China had also been rising. However, due to the extremely tight global energy supply, China's steel price was still competitive comparing with overseas regions, making China a crucial exporting country to fill the shortage of steel supply and processing.

As a result, the Group recorded a significant increase of 92.5% in export revenue of RMB909,298,000 (1H2021: RMB472,244,000) from DS segment in the first half of 2022. However, domestic revenue decreased due to the resurgence of the pandemic. With the Group's focus on high-end demands, the domestic turnover decreased by 28.1% to RMB475,137,000 (1H2021: RMB660,652,000) due to the combined effect of decline in sales volume and increase in selling price.

In general, the Group's overall sales revenue of DS products increased by 22.2% to RMB1,384,435,000 in the first half of 2022 (1H2021: RMB1,132,896,000).

Management Discussion and Analysis

HSS – accounted for approximately 19.9% of the Group's revenue in 1H2022

	For the six months ended 30 June					
	2022		2021		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**219,540**	**41.2**	280,172	65.5	(60,632)	(21.6)
Export	**312,940**	**58.8**	147,643	34.5	165,297	112.0
	532,480	**100.0**	427,815	100.0	104,665	24.5

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.

In the first half of 2022, the recovery speed of the manufacturing industry in Europe and North America slowed down after the rapid recovery from the pandemic last year. However, data indicated that the supply chain problems of industrial production activities in the U.S. had been alleviated, and industrial activities, especially the automobile production industry, continued to grow actively. Europe also benefited from increased production activities in the construction and automotive industries. Thus the demand for high-end HSS in Europe and the U.S. remained strong. Meanwhile, due to the shortage of supply of powder metallurgy products in Europe, the Group's export of powder metallurgy products with higher gross profit to Europe increased, resulting in further increase in export revenue.

In the first half of 2022, the export revenue of HSS increased by 112.0% to RMB312,940,000 (1H2021: RMB147,643,000).

Domestic demand for high-end HSS also fell back due to the resurgence of the pandemic, and the revenue in the domestic market dropped by 21.6% to RMB219,540,000 (1H2021: RMB280,172,000).

The overall sales revenue of HSS increased by 24.5% to RMB532,480,000 (1H2021: RMB427,815,000).

Cutting tools – accounted for approximately 15.7% of the Group's revenue in 1H2022

	For the six months ended 30 June					
	2022		2021		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**148,693**	**35.5**	144,124	31.4	4,569	3.2
Export	**269,721**	**64.5**	315,095	68.6	(45,374)	(14.4)
	418,414	**100.0**	459,219	100.0	(40,805)	(8.9)

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.

Management Discussion and Analysis

In the first half of 2022, the overseas demand for home DIY cutting tools fell back from last year's peak under the softening economic growth and the effects of persistently high inflation and interest rate hikes. There was also a surplus of inventories under the softening demand for consumer goods. Due to a drop in overseas orders, export revenue decreased by 14.4% to RMB269,721,000 in the first half of 2022 (1H2021: RMB315,095,000).

Domestic demand was affected by the pandemic in the first half of the year, which resulted in the decrease in sales. However, as industrial activities of the domestic market resumed in order, manufacturers accelerated the resumption of order delivery. With the Group's effective strategy of focusing on the delivery of orders for high-end products, which offered a higher average selling price, the Group recorded a 3.2% increase in domestic revenue to RMB148,693,000 (1H2021: RMB144,124,000).

As the Group's revenue from the cutting tools segment relied more on its exporting business, affected by the domestic and overseas market conditions as mentioned above, the Group's overall revenue of cutting tools decreased by 8.9% to RMB418,414,000 (1H2021: RMB459,219,000) in the first half of 2022.

Titanium alloy – accounted for approximately 6.2% of the Group's revenue in 1H2022

	For the six months ended 30 June					
	2022		2021		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**162,764**	**99.0**	103,827	98.9	58,937	56.8
Export	**1,695**	**1.0**	1,195	1.1	500	41.8
	164,459	**100.0**	105,022	100.0	59,437	56.6

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.

The Group recognizes the potential growth of the downstream high-end application market for titanium alloy and is committed to strengthening its after-sales service and enhancing its refinement management. The Group provided a variety of processing services and titanium alloy finished products based on the needs of our downstream customers, such as titanium alloy wire for the manufacturing of high-end glasses and digital electronics, to better satisfy the diversified needs of our customers. Such services not only successfully expanded the Group's customer network, but also increased the profit margin of our products.

As a result, the sales volume and the average selling price of titanium alloy were both increased in the first half of 2022. The total revenue increased by 56.6% to RMB164,459,000 (1H2021: RMB105,022,000).

The development of the application of titanium in high-end consumption, including aerospace, marine engineering, high-end chemical industry, sports and leisure, etc., has achieved fruitful results. The Group's titanium alloy products have obtained quality certification from international authoritative organizations such as Bureau Veritas and set a record for the largest specification of cold-drawn titanium alloy wire in the domestic industry, which continued to maintain the Group's leading position in the industry in terms of titanium wire quality.

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, the Group has ceased its operation in this segment since 1 January 2022.

Others – accounted for approximately 6.4% of the Group's revenue in 1H2022

In the others segment, the Group mainly procures raw materials like hardware, plastic and electronic components from suppliers, which will then be commissioned to packagers to assemble and pack into power tool kits for sale to overseas customers. The power tools currently sold include electric drill sets, electric batch sets, electric toothbrush sets, hardware sets, small fans and safety lights, etc. The entire segment is an export operation.

	For the six months ended 30 June					
	2022		2021		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Export	**170,372**	**100.0**	–	–	N/A	N/A

The others segment is a new assembly and sale business derived from the power tools products of the existing cutting tools customers. Through this, the Group has achieved downstream extension enabling us to provide more diversified products and services. Currently, the entire others segment falls into export business with a total revenue of RMB170,372,000 for 1H2022 (1H2021: Nil).

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company increased by 1.6% from RMB290,537,000 in the first half of 2021 to RMB295,198,000 in the first half of 2022. Detailed review of the individual components were as follows:

Revenue

Revenue of the Group for the first half of 2022 totalled RMB2,670,160,000, representing an increase of 2.0% when compared with RMB2,616,873,000 in the first half of 2021. Due to the pandemic prevention and control policy implemented by Chinese government, the domestic demand shrank in general. On the other hand, overseas demand has shown decent recovery with the resumption of economic activities in foreign counties. Rebound of overseas demand in tools steel products was the main driving force for the Group's revenue in the first half of 2022. For an analysis of individual segments, please refer to the "Business Review" section.

Cost of sales

The Group's cost of sales increased from RMB1,950,667,000 for the first half of 2021 to RMB2,014,959,000 for the first half of 2022, representing an increase of 3.3%. The increase was mainly due to the increase in cost of raw materials and energy during the period.

Gross margin

For the first half of 2022, gross margin was 24.5% (1H2021: 25.5%). Set out below is the gross margin for the six segments of the Group for the first half of 2021 and 2022:

	For the six months ended 30 June	
	2022	2021
DS	**21.5%**	30.4%
HSS	**24.3%**	30.6%
Cutting tools	**28.5%**	28.1%
Titanium alloy	**20.2%**	16.8%
Others	**21.9%**	nil
Trading of goods	**nil**	0.05%

Management Discussion and Analysis

DS

The gross margin of DS decreased from 30.4% in the first half of 2021 to 21.5% in the first half of 2022. Since May 2021, the export VAT rebate on tools steel was cancelled. The cancellation of VAT rebate had minimal effect on first half of 2021 since the production schedule was adjusted to manage the cancellation. However, full effect was reflected in the first half of 2022. In addition, export business dominated the first half of 2022, the comparison effect was then amplified.

On the domestic side, demand was sluggish and the price transmission was not as smooth as that of first half of 2021. As a result, the domestic gross profit margin declined as well.

HSS

Similar situation as DS was noted in HSS segment. HSS outperformed DS due to the contribution of high margin powder metallurgy products. The overall gross margin of HSS decreased from 30.6% in the first half of 2021 to 24.3% in the first half of 2022.

Cutting Tools

Gross margin of cutting tools increased from 28.1% in the first half of 2021 to 28.5% in the first half of 2022. Cutting tools was not in the scope of cancellation of VAT rebate and remined unaffected. Through the focus of high value-added cutting tools products, the Group was successful to maintain a good progress in improving gross margin of the cutting tools segment.

Titanium alloy

Gross margin of titanium alloy increased from 16.8% in the first half of 2021 to 20.2% in the first half of 2022. During the period, in response to the needs of the titanium alloy market, the Group provided deep-processed products with higher added value, and successfully increased the gross profit margin of the products.

Others

Others segment was a new business for the Group related to the assembly and sales of power tools kits to overseas customers. The Group aimed to expand and diversify our products with this new business.

Other income

The Group's other income increased from RMB48,491,000 in the first half of 2021 to RMB73,168,000 in the first half of 2022. During the first half of 2022, USD inflated significantly against RMB. The Group's net monetary assets denominated in USD, which mainly arise from the export business, resulted in exchange gain during the first half of 2022.

Distribution expenses

The Group's distribution expenses were RMB123,095,000 (1H2021: RMB80,813,000), representing an increase of 52.3%. Export revenue contributed 62.3% (1H2021: 35.8%) of the total revenue in the first half of 2022. In addition, the average shipping cost increased compared to the same period in 2021. Accordingly, freight and related logistic expenses increased significantly.

Administrative expenses

For the first half of 2022, the Group's administrative expenses was RMB64,922,000, which was comparable to those of 2021 (1H2021: RMB64,168,000). For the first half of 2022, administrative expenses as a percentage of revenue was 2.4% (1H2021: 2.5%).

Research and development expenses

Many of the major research and development projects were completed while other new research and development projects were just at initial stage. As such, the research and development expenses decrease from RMB155,551,000 in the first half of 2021 to RMB138,217,000 in the first half of 2022.

Management Discussion and Analysis

Net finance costs

The Group's net finance costs decreased from RMB68,035,000 in the first half of 2021 to RMB63,628,000 in the first half of 2022, which was the result of (i) lower average balance of interest-bearing bank loans; and (ii) higher average bank deposit which offered bank interest income during the period.

Income tax expense

The Group's income tax expense decreased from RMB36,489,000 in the first half of 2021 to RMB26,965,000 in the first half of 2022. Benefiting from preferential tax policies, additional amount of research and development expenses deduction was qualified and utilized in current period.

Profit for the period

During the period under review, provision for inventory of RMB24,675,000 (1H2021: RMB9,379,000) was provided as a general provision on inventory. The increase was mainly due to the higher inventory balance close to the period end.

As a result of the factors set out above, the Group's profit increased by 2.6% to RMB302,325,000 for the first half of 2022 from RMB294,538,000 for the first half of 2021. The Group's net profit margin for the first half of 2022 was 11.3%, which was comparable to the first half of 2021 (1H2021: 11.3%).

Profit attributable to equity shareholders of the Company

For the first half of 2022, profit attributable to equity shareholders of the Company was RMB295,198,000 (1H2021: RMB290,537,000), representing an increase of 1.6%.

Other financial assets

Other financial assets held by the Group included equity interests in Bank of Jiangsu Co., Ltd., 廈門創豐翌致投資管理合夥企業(有限合夥) (Xiamen Chuangfeng Yizhi Investment Management Partnership (Limited Partnership)*), Nanjing Xiaomuma Technology Co., Ltd., JM Digital Steel Inc., 寧波梅山保税港區啟安股權投資合夥企業(有限合夥) (Ningbo Meishan Free Trade Port Qian Equity Investment Partnership (Limited Partnership)*), 中金佳泰叁期(深圳)私募股權投資基金合夥企業(有限合夥) (CICC Jiatai Private Equity Fund III (Shenzhen) Partnership (Limited Partnership)*) and Ji'nan Financial Fosun Weishi Equity Investment Fund Partnership (Limited Partnership). All of these investments were stated at their fair value. The increase was caused by an upward restate to fair market value of Bank of Jiangsu Co., Ltd. and further investment in 中金佳泰叁期(深圳)私募股權投資基金合夥企業(有限合夥) (CICC Jiatai Private Equity Fund III (Shenzhen) Partnership (Limited Partnership)*).

Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss included trading securities and wealth management products. The increase was caused by the investment in redeemable fund during the period for better return on the spare cash resource.

Trade and bills receivable

Net trade and bills receivable increased from RMB1,883,334,000 as at 31 December 2021 to RMB2,326,747,000 as at 30 June 2022. Loss allowance of RMB102,374,000 (2021: RMB84,948,000) accounted for 4.2% (2021: 4.3%) of the trade and bills receivable, which were comparable across the period end. The increase in loss allowance was mainly due to the general provision on higher trade receivable balance.

Trade and other payables

Trade and other payables increased from RMB 1,373,841,000 as at 31 December 2021 to RMB1,699,586,000 as at 30 June 2022. The increase was mainly caused by (i) the 2021 dividend payable which was recognized as liability until it was approved in the Company's annual general meeting held on 2 June 2022 and (ii) the increase in other payables related to the planned capital expenditure projects.

* *For identification purpose only*

Management Discussion and Analysis

INDUSTRY REVIEW

Entering in 2022, the domestic economy was impacted by a new round of outbreaks and the sluggish growth of the external economic environment. In the first quarter of 2022, since the effects of the domestic cross-cyclical growth stabilization policy gradually emerged, China's key economic indicators maintained a reasonable growth: the growth rates of industrial production, infrastructure investments, and domestic consumption and retail sales recorded year-on-year increase. China's Gross Domestic Product ("GDP") grew by 4.8% year-on-year in the first quarter of 2022. However, in the second quarter of 2022, the economic recovery was limited due to the unexpected emergence of the COVID-19 pandemic in China. Nevertheless, the Chinese governments at all levels effectively implemented a package of policies to stabilize the economy and ensure that the economy operated within a reasonable tempo, with a GDP growth of 0.4% year-on-year in the second quarter. In respect of domestic industrial production, a gradual stabilization and recovery was realized in the first half of 2022. According to statistics, in the first half of 2022, the value-added output of industrial enterprises above the designated size increased by 3.4% year-on-year.

In overseas markets, during the period under review, the U.S. Federal Reserve substantially raised the federal funds rate from 0.25% to 1.75% to rein high inflation, resulting in a significant drop in the exchange rate of the RMB against the USD. This brought China's exports an advantage in the short term. In addition, an imbalance between supply and demand for steel commodities overseas was resulted from the geopolitical crisis in Europe and continued price hike of energy such as oil and natural gas deriving from the Russia-Ukraine War. In contrast, China, as the leading steel exporting and processing country with a relatively stable steel supply and energy prices, happened to fill the market gap with its supply. According to the General Administration of Customs of China, China's steel exports reached 7.557 million tons in June 2022, representing a year-on-year increase of 17.0%, and the cumulative steel exports from January to June amounted to 33.461 million tons. According to a market report of cutting tools, the U.S. consumption from January to June 2022 totalled USD1.1 billion, representing an increase of 7.9% from the same period in 2021.

In the domestic market, the demand for steel in the domestic market demonstrated a downward trend due to the international situation, a new round of unexpected COVID-19 pandemic outbreak, the stagnant real estate sector and the environmental protection measures on limiting the production volume implemented by the Chinese government. Steel companies adopted phased flexibility measures to reduce steel production. However, in terms of price, the Group's average selling price increased in the first half of the year due to the impact of rising prices of rare metals.

MARKET REVIEW

Looking back at the DS market in 2022, with the optimization of China's economic structure and the continuous transformation and upgrading of the manufacturing industry, the high-end manufacturing industry as represented by the automobile industry ushered in a rapid and sustainable development. It is expected to further boost the demand for medium and high-end DS products. For industries having higher quality requirements in steel, the application of DS with high alloy content will continue to expand, thereby leading to a rapid increase in demand. Driven by the stimulus policies of various cities in the PRC to promote the sales of automobile, the marketing policies of automobile OEMs and the comprehensive resumption of business throughout the automobile industry chain, the automobile industry, in particular, recorded a significant increase in production and sales in June as compared to that of 2021, among which, the electric vehicles whose growth was more remarkable. It is expected to drive demand for large-scale DS with high alloy content with its integrated manufacturing flow.

According to the statistics of key associated enterprises of the China Machine Tool & Tool Builders' Association, the total import of machine tools in China from January to June 2022 was USD6.33 billion, decreased by 9.1% from a year earlier, while the total export was USD10.05 billion, increased by 13.5% year-on-year, reflecting China's machine tools industry is still export-driven. Since the beginning of March, the regions hit hard by the COVID-19 pandemic in China were where the enterprises in the machine tool industry clustered, thus the growth rate of the main economic indicators of the machine tool industry was negatively impacted.

Management Discussion and Analysis

In terms of policy, China continued to implement a number of policies to support the orderly and high-end development of the steel industry. The Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Ecology and Environment jointly issued the "Guiding Opinions on Promoting High-Quality Development of the Steel Industry", proposing that by 2025, the steel industry will basically form a high-quality development layout, encouraging steel enterprises to continuously improve their independent innovation, optimize industrial structure and develop green and low-carbon best practices. It aims to improve the quality of supply while protecting resources which in turn will consolidate the development of China's steel industry and international convergence and the pursuit of high quality global competitiveness.

ACCOMPLISHMENTS

During this period when China's steel industry is transforming from "Chinese steel products" to "Chinese steel brand", the Group was awarded the "Jinshan Award (金山獎)" for the manufacturing industry of Zhenjiang City in 2021 and the "2022 Global Influential Brand in the Steel Industry".

The "Powder Metallurgy Industry Internet Platform of Tiangong (天工粉末冶金工業互聯網平台)" established by the Group was selected as one of the benchmark cases of digital conversion in the Yangtze River Delta enterprises in 2022.

The "Research and Development of Key Technologies for Preparation of Powder Metallurgy Ultra-high Alloy High-speed Steel Micro-wire for Aviation Micro-drilling (航空微鑽用粉末冶金超高合金高速鋼微細絲製備關鍵技術研發)" as declared by Weijian Tools, a wholly-owned subsidiary of the Company, was shortlisted in proposed project list under the special fund of the Science and Technology Plan of Jiangsu Province (key research and development plan, industry prospect and key core technologies).

TG Tools's plan for proposed Spin-off and Listing in the A-share market is still under progress which is expected to be a significant milestone for the Group in the capital market. TG Tools, together with its subsidiaries, are engaged in the manufacture and sale of alloy tools steel, whose production processes include conventional metallurgy and powder metallurgy.

In addition, in the first half of the year, despite the less promising prospect of the steel industry, the Group continued to draw the attention of analysts and researchers with research reports coverage and positive rating. In 2022, the Group was awarded the 6th Golden Hong Kong Stock Connect Company Award and the Quam IR Award 2021.

FUTURE OUTLOOK

Operation Strategy

The Group leads the industry with its professional equipment, technology and management. Over the years, the Group has been focusing on cost control and research and development, and is committed to transforming its long-standing achievements and experience into innovative applications in the steel metallurgy industry to empower the development and upgrade of the industry, while also striving to meet the domestic market demand and expand its international market share with the three cores of "Precise Strategic Layout, Efficient Execution and World-leading Technology".

Domestic Industry Development

Looking ahead to the second half of the year, inflation and recessionary pressures in major overseas economies are on the high side, while the macroeconomic environment in China is more stable, with the economy recovering at a reasonable tempo. Steel supply is expected to continue to decrease in the second half of 2022 as the supply of raw materials remains tight, and the growth rate of DS supply has also slowed down. It is expected that the DS market in the second half of the year will initially show a weakening trend and follow by a rising trend. The extent of the rebound depends on whether macroeconomic stimulus policies can be implemented and the recovery of market demand.

Management Discussion and Analysis

The market also expects that in the second half of the year, automobile production, as an important downstream industry of high-end industrial tools steel, will benefit from the epidemic relief, campaigns to promote new energy vehicles in rural areas, various levels of automobile consumption promotion and other automobile policies. The automobile industry is expected to recover significantly. As domestic steel has always had a cost advantage, it is expected to drive the release of demand in the corresponding market. Domestic automobile production is expected to increase, with overall steel consumption in the second half of the year estimated at approximately 29.59 million tonnes, representing a year-on-year increase of 7.95%.

Meanwhile, in response to the overall national strategy of carbon peaking and carbon neutrality and steel industry goals of China's "30•60 Goals", the Group continues to promote the innovative transformation of products by making use of the "50,000 Tons Tools Steel Capacity Expansion Project" (i.e. the "Tools Steel Quality Enhancement Project"), to unleash the production capacity of 300,000 tons of tools steel. On the basis of expanding production capacity, the Group will continue to strengthen its research and development of high-end alloy tools steel, so as to enhance the competitiveness of the Group's products.

As a pioneer in the industry, the Group will continue to be a dominant player in the field of tools steel. As the cornerstone of the manufacturing industry, the Group will break away from the passive situation of reliance on overseas imports for key special steel materials in China, thereby eliminating the risk of "bottleneck" of key basic materials by actively making efforts to ensure the national security need of key special steel material and thriving to enhance its core competitiveness.

Export Operation

The global economy has been hit by multiple crises, heightening fears of recession and stagflation in the business environment. Central banks of different countries are taking more aggressive measures to raise interest rates to fight inflation, which is expected to lead to a slowdown in economic growth in the second half of the year, a reduction in overseas job creation and a severe blow to financial markets. Coupled with the ongoing inflationary problems in the U.S. and the weakening of the European markets, demand in the international steel market remains unstable.

Overseas Expansion

In response to the latest developments in the international steel market, the Group will continue to pursue its globalization strategy by diversifying its overseas layout and setting up 11 overseas sales offices. At the same time, the second phase of the plants in Rojana Rayong Pluak Daeng Industrial Park, Rayong, Thailand, is expected to be completed in 2022, with a view to increasing production capacity by 50 million pieces. The total production capacity of the two phases is close to 100 million pieces. The Group aims to consolidate and continue to optimize its overseas production and sales layout to enhance its competitiveness in overseas markets in the face of global uncertainties.

Product Development Strategy

Powder Metallurgy Industry

In recent years, thanks to the rapid development of the automobile, machinery manufacturing and high-tech industries, the capacity of powder metallurgy has been expanding. Looking ahead, with the extensive use of powder metallurgy components in emerging fields such as 5G communications and new energy, as well as the continuous improvement and innovation of existing products and production processes, the market size of China's powder metallurgy industry is expected to continue to grow.

The Group owned the first industrial powder metallurgy tools steel production line in China. Although the production volume was slightly lower than expected due to the performance limitations of the hot isostatic pressure equipment, the Group believes that it will be able to catch up in a short period of time after the completion of the testing of the imported hot isostatic pressure machines in the second phase and is confident in the output volume once the facility is fully operational. The second phase of the powder metallurgy production line is also on schedule for completion in 2022, with an additional annual production capacity of 3,000 tonnes. Together with the phase one production line, the total production capacity of the powder metallurgy production line will be increased to 5,000 tonnes, which is expected to expand into overseas markets.

Management Discussion and Analysis

The Group will continue to promote the transformation of high-end products, persist in investing in the research and development of powder metallurgy and actively expand distribution in overseas markets. At the same time, the Group is also intensively promoting the use of powder metallurgy HSS cutting tools, including powder metallurgy taps and powder metallurgy drill bits. It is expected to complete the annual production of 10 million powder metallurgy taps in 2023 to achieve import substitution and greatly improve the machine tool processing capacity of China's manufacturing industry.

Carbide Cutting Tools Industry

Cutting tools are the foundation of the machinery manufacturing industry and major technical fields. In recent years, in addition to HSS cutting tools, the Group has actively sought to upgrade and diversify its products and focused on the high-end carbide cutting tools market. We provided cutting tools products 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. At present, the Group has set up a subsidiary with a team of carbide industry experts to produce carbide and is expected to commence trial production of full-process carbide cutting tools to provide value-added services by the second half of 2022.

Titanium Alloy Industry

Titanium filaments made from titanium are used in a wide range of applications. The Group is proactive in meeting the individual needs of downstream customers to personalise and enhance the value of our products, for example, providing customised titanium wire products for downstream scenarios customers such as eyeglass, 3D printing and 3C products. The Group will continue to explore the market for titanium wire by coordinating with downstream customers to help them with better application in their projects. The Group hopes to move forward to the application scenarios of refined titanium alloys through more R&D application projects, so as to promote higher-quality development and facilitate the mid-to-high end development of titanium alloys.

Marketing Strategy

The Group has been operating in collaboration with downstream mid-to-high end heat treatment technology and piece cutting service providers to achieve agile closed-loop management of after-sales services and enhance the customer service system in order to improve after-sales service capability and strengthen the understanding of customer needs.

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 and developed 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, which effectively improves the performance of network procurement, comprehensively enhances the synergy of the industrial supply chain, and makes the best preparation for transforming the Group to an amoeba management model. In the meantime, the second phase of the smart manufacturing project "Digital Tiangong" was officially launched in June 2021, which involved a wider range of departments and functions. The Group will accelerate its digitalization and smart development by gradually implementing informatization, in order to achieve comprehensive transformation and upgrade, and to lead the change and development of the industry.

In March 2022, the Group's Tiangong Alloy Melting Smart Factory Project was officially launched. This cooperation is the second time that the Group joined hands with the solution provider to develop the comprehensive digitalization and informatization of the alloy melting workshop, establishing a systematic management of the whole process from raw material warehouse to production workshop and then to finished product warehouse, as well as the transparent management of the production process.

Management Discussion and Analysis

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 2022, the Group's current assets mainly included cash and cash equivalents of RMB1,098,434,000, inventories of RMB2,532,132,000, trade and other receivables of RMB2,685,902,000, time deposits of RMB1,602,165,000 and pledged deposits of RMB176,416,000. The Group's current assets were RMB8,198,045,000 compared to RMB7,761,073,000 as at 31 December 2021, an increase of 5.6%.

As at 30 June 2022, interest-bearing borrowings of the Group were RMB2,779,416,000 (31 December 2021: RMB2,638,786,000), RMB1,608,416,000 (31 December 2021: RMB1,600,786,000) of which were repayable within one year and RMB1,171,000,000 (31 December 2021: RMB1,038,000,000) 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 (31 December 2021: nil).

As at 30 June 2022, interest-bearing borrowings of RMB1,841,000,000 (31 December 2021: RMB1,757,700,000) were denominated in RMB, USD73,476,063 (31 December 2021: USD65,487,367) were denominated in USD, EUR63,629,498 (31 December 2021: EUR61,942,110) were denominated in EUR and HKD nil (31 December 2021: HKD20,000,000) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.55% to 4.75% (31 December 2021: 0.76% to 4.75%). Net cash used in operating activities during the period was RMB206,752,000 (1H2021: net cash generated from operating activities RMB342,161,000).

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2022, the Group's net increase in property, plant and equipment amounted to RMB23,813,000 (1H2021: RMB56,083,000). The increase was mainly related to the construction of the 30 tons intermediate frequency furnace and metallurgical crane. As at 30 June 2022, capital commitments were RMB921,519,000 (31 December 2021: RMB1,022,087,000), of which RMB104,123,000 (31 December 2021: RMB138,169,000) was contracted for and RMB817,396,000 (31 December 2021: RMB883,918,000) was authorised but not contracted for. The majority of capital commitments related to heavy-duty (7,000 tons) fast forging machine production line, carbide cutting tools production line and second phase of powder metallurgy project.

Management Discussion and Analysis

USE OF PLACING PROCEEDS

The Group placed an aggregate of 200,000,000 shares (representing 7.16% of the enlarged issued share capital of the Company) at the placing price of HK$4.22 per share to not less than six placees in 2021. The placing of the 200,000,000 shares was completed on 7 May 2021 with the net proceeds of approximately HK$834 million representing a net issue price of approximately HK$4.17 per share. The market price of the placing share was HK$4.88 per share as quoted on the Stock Exchange of Hong Kong on 4 May 2021, the last full trading day immediately before the time at which the Placing and Subscription Agreement was signed. 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 2022)	Proposed use of the remaining unutilised proceeds (as at 30 June 2022)
(i) Expansion of the industrial park of the Group in Thailand	HK$30.5 million was used in the expansion of the industrial park of the Group in Thailand	The remaining unutilised proceeds was HK$29.4 million
(ii) Development of the new precision tools products of the Group	HK$130.3 million was used in development of the new precision tools products of the Group	The remaining unutilised proceeds was HK$228.9 million
(iii) Replenishment of Group's working capital to procure raw materials and meet any cashflow requirements that may arise from daily operations	HK$415.3 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 nil

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

RISK AND PREVENTION

Operating Exposure

In the first half of 2022, the global economy and trade growth started to slow down, and the economic outlook was not optimistic. The unstable geopolitical situation in Europe and the conflict between Russia and Ukraine triggered the rise in energy and commodity prices, causing serious inflation in various regions around the world. In addition, under the recurring outbreaks of COVID-19 in China, the recovery of domestic production and consumption activities was affected in the short term.

As the pandemic had been gradually brought under control in China with the implementation of effective preventive measures, the Chinese government actively launched measures to boost industrial production activities and consumption activities with the focus on promoting the development of the smart manufacturing industry, strengthening the construction of digital workshops, and boosting key industries such as the production of new energy vehicles, and provided economic subsidies to these industries. The above measures not only helped to increase the demand for high-end DS products and other products in the downstream market, but also facilitated the Group to further expand its production technology and enhanced its position in the industry.

Management Discussion and Analysis

In addition to relying on national policies, the Group also actively planned ahead by diversifying and expanding product applications and providing more value-added services to customers through precision customer service and after-sales closed-loop management, thereby increasing product profitability and enhancing customer attachment and market competitiveness. During the Reporting Period (as defined below), the Group's titanium wire products were manufactured as customized products through precision customer sales and refined product application design strategies, which were widely recognized by customers, increasing market competitiveness and reducing operational risks arising from the weak economic market.

Due to the shift of China's DS industry from mid-end to high-end products and the rising costs and declining consumption power caused by global inflation, the Group accelerated the upgrading of digital and information constructions of production facilities through the commencement of the second phase of "Digital Tiangong", enhanced the transparent management of production, adopted technology to effectively cope with labor fluctuations, implemented intelligent logistics, reduced the overall production cost, strengthened its competitiveness and further controlled the risk of rising energy and global production costs.

In the situation of the volatile development of the pandemic and the changing economic environment, the Group will continue to leverage its decisive and precise strategic deployment, leading industry position, high-end and internationally leading product technology and quality to withstand different market challenges.

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for 37.7% (1H2021: 64.2%). 62.3% (1H2021: 35.8%) 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 2022, the Group pledged certain bank deposits amounting to approximately RMB176,416,000 (31 December 2021: RMB244,191,000) and certain intercompany trade receivables amounting to RMB218,162,000 (31 December 2021: RMB175,195,000). Details are set out in the notes to the interim financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2022, the Group employed 3,106 employees (31 December 2021: 3,108). 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 2022 (31 December 2021: No material contingent liabilities).

MATERIAL ACQUISITIONS AND DISPOSALS

There are no material acquisitions and disposal of subsidiaries, associates and joint ventures by the Group during the Reporting Period.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments (i.e. investments with fair value over 5% of the Group's total assets) during the Reporting Period.

Management Discussion and Analysis

EVENTS AFTER REPORTING PERIOD

Acquisition of a PM Taps manufacturer from Mr. Zhu Zefeng

On 19 August 2022, 江蘇天工精密工具有限公司 (Jiangsu Tiangong Precision Tools Co. Ltd*) ("TG Precision", a wholly-owned subsidiary of the Company, as purchaser) entered into an equity transfer agreement to acquire the entire equity interest of 江蘇天冠精密機械發展有限公司(Jiangsu Tianguan Precision Machinery Development Co., Ltd.*) ("Tianguan") from Smart Rich Industrial Limited ("Smart Rich", a company wholly-owned by Mr. Zhu Zefeng, a substantial shareholder and the chief executive officer of the Company) at a total consideration of RMB276,000,000 (equivalent to approximately HK$318.1 million).

The Group has long been engaged in the manufacturing and sales of traditional taps and has been marketing our products (e.g. traditional taps) through distributors in line with the industry practice in the PRC. Some of our distributors are engaged in the trading of both traditional taps and powder metallurgy taps (the "PM Taps"). Through the business communications with these distributors and the industrial experience of the directors, in particular, Mr. Zhu Xiaokun (the Chairman), Mr. Jiang Guangqing (an Executive Director) and Mr. Gao Xiang (an Independent Non-Executive Director) all have over 30 years of experience in the cutting tools industry, the Group recognized that there is a market demand for high precision PM Taps in the domestic market. Despite such recognition, the Group decided to prioritize its research and development ("R&D") effort to the project of the first powder metallurgy production line for DS and HSS and other projects, such as the expansion in Thailand as a measure to reduce the adverse impact of the Sino-US trade war against the Group's products, the heavy-duty (7,000 tons) fast forging machine production line and carbide cutting tools project to strengthen the product variety of the Group's products according to the market demand. Furthermore, powder metallurgy high speed steel ("PM HSS") is the upstream of PM Taps, any failure in R&D of the upstream production of PM HSS could adversely affect the profitability of downstream production of PM Taps. Considering the risk as mentioned above and the resources available (land, capital, R&D power, human resources) and the other priorities, the R&D of downstream PM Taps was not considered by the Group at the material time.

Due to the difference in price and performance (e.g. the precision and durability), traditional taps and PM Taps are now applied in different industrial uses. For traditional taps, they are more commonly applied in the general application with standard precision requirement such as consumer level automobile, home appliances, DIY home use, etc., whereas for PM Taps, they are applied for high precision[Note] applications such as automobile, machinery manufacturing, metal industry, aerospace, instrumentation, hardware tools, engineering machinery, electronic household appliances and high-tech industries etc.

Note: Compared with the traditional taps, the hardness of PM taps are significantly higher and the failure of PM Taps is mostly caused by broken edges rather than deformation caused by wear and tear (due to PM Taps' wear-resistance feature), i.e. the screw threads processed by PM Taps before failure are of consistent standard. As there will be no deviation in the screw threads caused by the increased usage of such PM Taps, PM Taps are more suitable for processing parts that require high precision.

However, the production of PM Taps would require a specific raw material, PM HSS, the local supply of which was not available in the PRC market before the Group's successful stable production of PM HSS in or around the second quarter of 2021. Locally manufactured PM Taps were not available before Tianguan's entry to the market and the domestic manufacturers engaged in high precision cutting have been relying on PM Taps imported from Europe, North America, Japan and Korea.

Upon knowing that Tianguan had successfully developed its PM Taps products using the Group's PM HSS products, such PM Taps were tested by the testing laboratory of the Group. Results indicated that Tianguan's products outperformed its close overseas competitors. Based on the testing results and given that the R&D risk and investment have already borne by Smart Rich, the Group began to consider the possibilities of acquiring Tianguan, to swiftly expand into the market of downstream products of PM HSS which would help promoting the application of PM HSS and provide better gross margin to the cutting tools segment and the Group.

* *For identification purpose only*

Management Discussion and Analysis

To ensure the acquisition of Tianguan by TG Precision is in the interests of the Company and its shareholders and the consideration payable for the acquisition is fair and reasonable, the Board has taken into account, amongst others, the following key factors:

1. **Competitive advantage of Tianguan's PM Taps**

   In addition to performing lab test on the performance of the products of Tianguan, the Group had discussed the cost structure of Tianguan to better understand the cost of Tianguan's products. Due to the lower manufacturing cost in China and lower shipping costs involved, target price of Tianguan's products could be set at a considerable discount to the price of competitor's products.

   In terms of quality of the products, Tianguan's PM Taps are manufactured using the powder steel raw materials produced by the advanced third-generation atomized pulverizing production technology (霧化制粉生產技術). With its better wear resistance and stability, Tianguan's PM Taps are able to offer better cutting performance, in handling both soft non-ferrous alloys and high hardness die steels, compared with the products manufactured by Tianguan's overseas competitors currently used by the manufacturers in the locality.

   In addition to (i) the competitive price offered by Tianguan and (ii) better quality as compared with Tianguan's overseas competitors' products, Tianguan's products being locally available are also appealing to the domestic customers as the availability of which are less impacted by the global supply chain and are of shorter shipment time. The Group therefore considers Tianguan's PM Tabs are having a significant competitive advantage over its close overseas competitors' products in the PRC market.

2. **Market analysis of PM Taps**

   Through the analysis of the taps market in China conducted by the Group, the Group learned that the annual consumption of threading tools(Note) in the PRC market was approximately 304.1 million pieces in 2021. The designed annual production of Tianguan's PM Taps is approximately 5 million pieces which would only represent approximately 1.64% of the entire consumption in the PRC market. Considering the competitive advantage of Tianguan's products, the Group considers the import substitution plan for this 1.64% of the PRC market is highly achievable.

   Note: Thread processing tool (or threading tools) is a tool used to process threads by cutting methods, which are generally referred to as taps.

   The Group further approached an independent local distributor with around 25 years of experience in the distribution of high precision cutting tools and have been distributing products for various renowned international brands to further ascertain the potential of the PM Taps market in China. Impressed by the potential of Tianguan's products, the distributor agreed to form a joint venture with the Group, pursuant to which the distributor agreed to contribute RMB2.45 million for a 49% stake towards the end of 2022, and be responsible for the daily operations namely, marketing and distribution of Tianguan's PM Taps in central and southern China area upon the successful acquisition of Tianguan by TG Precision. The Group considered the opinion and the willingness of this distributor to make such capital contribution to the joint venture as a positive and strong indication of the potential of Tianguan's PM Taps in China.

3. **Valuation**

   For the acquisition to be beneficial to the Company and its shareholders as a whole, the valuation of Tianguan has to be appropriate. As such, the Group engaged an independent valuer qualified to provide valuation services to companies listed on the stock exchanges in PRC and transactions involving state-owned assets and having expertise in valuing cutting tools to perform a valuation on Tianguan. The Group and the valuer both considered that income approach is the appropriate methodology for ascertaining the value of Tianguan since it exists as a comprehensive cash generation unit instead of a grouping of individual assets. Appropriate assumptions and parameters (including but not limited to risk premium, details of basis, etc.) were discussed and applied to the valuation model to take into account of Tianguan's specific risks such as short operating period.

The valuation result was also counter-verified by the Group using market comparison approach by comparing various PRC listed companies principally engaged in cutting tools business. The average P/E and P/B ratio (excluding outliner) (25.08 and 3.57 respectively) were compared against Tianguan's implied annualized P/E (10.85) and P/B (1.43) calculated using the valuation result. A relatively big discount from the market comparable was noted.

Based on the comprehensive analysis performed by the Group, the Board believed that the consideration is fair and reasonable and the proposed acquisition of Tianguan is in the interest of the Company and its shareholder as a whole and concluded the equity transfer agreement.

Save for the above, no other important events affected the Company and its subsidiaries have occurred since the end of the Reporting Period and up to the date of this report.

NO MATERIAL CHANGE

Save as disclosed in this report, information in relation to the Group's performance in the period from 1 January 2022 to 30 June 2022 (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 2021 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 2022 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 Reporting Period (no interim dividend for the six months period ended 30 June 2021).

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

As at 30 June 2022, 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)	27.82
	Beneficial owner	6,800,000 (L)	0.24
			28.06
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 2022,

(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 Spousal interest[1]	44,511 (L) 5,489 (L)	89.02% 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 2022, 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)	28.06
THCL[1]	Beneficial owner	774,758,000 (L)	27.82
Zhu Zefeng	Interests of controlled corporations[3 and 4] Beneficial owner	675,700,521(L) 1,500,000 (L)	24.26 0.06
			24.32
Niu Qiu Ping	Spousal interest[5]	677,200,521 (L)	24.32
Sky Greenfield Investment Limited	Beneficial owner[3] Interests of controlled corporations[4]	631,768,521 (L) 43,932,000 (L)	22.68 1.58
			24.26

(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 since the last grant of options on 11 January 2018 and up till 30 June 2022 and therefore, there were no outstanding share options during the six months ended 30 June 2022.

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 HKD4.90.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2022, the Company repurchased 10,000,000 shares in total, at an aggregate consideration of HKD32,015,060 (equivalent to approximately RMB26,018,000) on The Stock Exchange of Hong Kong Limited. The shares repurchased were cancelled on 13 May 2022. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per ordinary shares Highest (HKD)	Lowest (HKD)	Aggregate consideration paid (HKD)
March 2022	1,648,000	3.20	3.06	5,176,020
April 2022	8,352,000	3.43	2.98	26,839,040
Total	10,000,000			32,015,060

Save as disclosed, during the six months ended 30 June 2022, 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 2022, 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 C.1.6

CG Code provision C.1.6 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 2 June 2022 due to the COVID-19 pandemic.

Report of the Directors

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 26 August 2022 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 2022 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

CHANGE IN INFORMATION OF DIRECTORS

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

Mr. Lee Cheuk Yin, Dannis resigned as an independent non-executive director of Geely Automobile Holdings Limited (0175. HK) on 25 May 2022.

Save as disclosed above, there is no change in information of the Directors during the Reporting Period.

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

On 5 September 2022, the Company (as borrower) entered into a facilities agreement (the "Facilities Agreement") with a Hong Kong licensed bank relating to:

– Dividend loan facility amounted to HKD194,114,500; and

– Business card facility amounted to USD300,000

The dividend loan facility are unsecured and interest bearing on any outstanding amounts with a tenor of one year.

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 52.38% 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

29 August 2022

Independent Review Report

KPMG

Review report to the board of directors of
Tiangong International Company Limited
for the six months ended 30 June 2022
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 26 to 52 which comprises the consolidated statement of financial position of Tiangong International Company Limited ("the Company") as at 30 June 2022 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and 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 2022 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

29 August 2022

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2022 (unaudited)

	Note	Six months ended 30 June 2022 RMB'000	2021 RMB'000
Revenue	3	**2,670,160**	2,616,873
Cost of sales		**(2,014,959)**	(1,950,667)
Gross profit		**655,201**	666,206
Other income	4	**73,168**	48,491
Distribution expenses		**(123,095)**	(80,813)
Administrative expenses		**(64,922)**	(64,168)
Research and development expenses		**(138,217)**	(155,551)
Other expenses	5	**(20,633)**	(29,475)
Profit from operations		**381,502**	384,690
Finance income		**22,960**	10,104
Finance expenses		**(86,588)**	(78,139)
Net finance costs	6(a)	**(63,628)**	(68,035)
Share of profits of associates		**11,506**	5,674
Share of (losses)/profits of joint ventures		**(90)**	8,698
Profit before income tax	6	**329,290**	331,027
Income tax	7	**(26,965)**	(36,489)
Profit for the period		**302,325**	294,538
Attributable to:			
Equity shareholders of the Company		**295,198**	290,537
Non-controlling interests		**7,127**	4,001
Profit for the period		**302,325**	294,538
Earnings per share (RMB)	8		
Basic and diluted		**0.106**	0.110

The notes on pages 33 to 52 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 2022 (unaudited)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit for the period	**302,325**	294,538
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 (non-recycling)	**13,584**	21,888
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	**(41,360)**	(386)
Other comprehensive income for the period	**(27,776)**	21,502
Total comprehensive income for the period	**274,549**	316,040
Attributable to:		
Equity shareholders of the Company	**267,314**	311,897
Non-controlling interests	**7,235**	4,143
Total comprehensive income for the period	**274,549**	316,040

The notes on pages 33 to 52 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2022 (unaudited)

	Note	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	9	**4,297,179**	4,273,366
Lease prepayments		**192,117**	163,214
Intangible assets		**15,992**	16,942
Goodwill		**21,959**	21,959
Interest in associates		**77,255**	61,814
Interest in joint ventures		**35,680**	38,699
Other financial assets	10	**222,894**	185,310
Deferred tax assets		**52,086**	42,209
		4,915,162	4,803,513
Current assets			
Financial assets at fair value through profit or loss	11	**102,996**	1,651
Inventories	12	**2,532,132**	2,277,610
Trade and other receivables	13	**2,685,902**	2,131,259
Pledged deposits	14	**176,416**	244,191
Time deposits		**1,602,165**	1,749,481
Cash and cash equivalents	15	**1,098,434**	1,356,881
		8,198,045	7,761,073
Current liabilities			
Interest-bearing borrowings	16	**1,608,416**	1,600,786
Trade and other payables	17	**1,699,586**	1,373,841
Current taxation		**23,229**	40,955
Other financial liability	18	**1,496,350**	1,468,050
		4,827,581	4,483,632
Net current assets		**3,370,464**	3,277,441
Total assets less current liabilities		**8,285,626**	8,080,954
Non-current liabilities			
Interest-bearing borrowings	16	**1,171,000**	1,038,000
Deferred income		**46,418**	50,306
Deferred tax liabilities		**94,898**	100,091
		1,312,316	1,188,397
Net assets		**6,973,310**	6,892,557

Consolidated Statement of Financial Position

as at 30 June 2022 (unaudited)

	Note	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Capital and reserves			
Share capital	19	**49,231**	49,399
Reserves		**6,655,670**	6,580,846
Total equity attributable to equity shareholders of the Company		**6,704,901**	6,630,245
Non-controlling interests		**268,409**	262,312
Total equity		**6,973,310**	6,892,557

Approved and authorised for issue by the board of directors on 29 August 2022.

Zhu Xiaokun
Director

Yan Ronghua
Director

The notes on pages 33 to 52 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2022 (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		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
Balance at 1 July 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
Changes in equity for the six months ended 31 December 2021													
Profit for the period		–	–	–	–	–	–	–	–	–	373,834	3,258	377,092
Other comprehensive income		–	–	–	–	–	(11,706)	–	2,676	–	–	(128)	(9,158)
Total comprehensive income		–	–	–	–	–	(11,706)	–	2,676	–	373,834	3,130	367,934
Dividends approved in respect of the previous year	19(a)	–	–	–	–	–	–	–	–	–	(2,254)	–	(2,254)
Transfer to reserve		–	–	–	–	–	–	–	–	93,341	(93,341)	–	–
Liquidation of a subsidiary		–	–	–	–	–	–	–	–	(202)	202	–	–
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	–	(46)	(46)
Balance at 31 December 2021		49,399	2,753,838	564	61,524	91,925	(64,032)	–	68,282	930,561	2,738,184	262,312	6,892,557

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2022 (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 2022		49,399	2,753,838	564	61,524	91,925	(64,032)	–	68,282	930,561	2,738,184	262,312	6,892,557
Changes in equity for the six months ended 30 June 2022													
Profit for the period		–	–	–	–	–	–	–	–	–	295,198	7,127	302,325
Other comprehensive income		–	–	–	–	–	(41,332)	–	13,448	–	–	108	(27,776)
Total comprehensive income		–	–	–	–	–	(41,332)	–	13,448	–	295,198	7,235	274,549
Dividends approved in respect of the previous year	19(a)	–	–	–	–	–	–	–	–	–	(165,429)	–	(165,429)
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	5,209	5,209
Acquisition of non-controlling interests		–	–	–	(1,211)	–	–	–	–	–	–	(6,347)	(7,558)
Repurchase of own shares	19(b)	(168)	(26,018)	168	–	–	–	–	–	–	–	–	(26,018)
Balance at 30 June 2022		49,231	2,727,820	732	60,313	91,925	(105,364)	–	81,730	930,561	2,867,953	268,409	6,973,310

The notes on pages 33 to 52 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2022 (unaudited)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Operating activities		
Cash (used in)/generated from operations	**(146,991)**	407,642
Tax paid	**(59,761)**	(65,481)
Net cash (used in)/generated from operating activities	**(206,752)**	342,161
Investing activities		
Payments for the purchase of property, plant and equipment and lease prepayments	**(188,583)**	(217,618)
Other cash flows generated from/(used in) investing activities	**88,305**	(91,245)
Net cash used in investing activities	**(100,278)**	(308,863)
Financing activities		
Proceeds from new interest-bearing borrowings	**1,903,035**	2,711,006
Repayments of interest-bearing borrowings	**(1,772,839)**	(3,305,731)
Capital contribution from non-controlling shareholders	**5,209**	85,000
Proceeds from contingent redeemable capital contributions recognised as other financial liability	**–**	1,065,000
Proceeds from placing and subscription	**–**	690,168
Payments for repurchase of shares	**(26,018)**	–
Interest paid	**(58,981)**	(54,182)
Payment for acquisition of non-controlling interests	**(7,558)**	–
Net cash generated from financing activities	**42,848**	1,191,261
Net (decrease)/increase in cash and cash equivalents	**(264,182)**	1,224,559
Cash and cash equivalents at 1 January	**1,356,881**	827,246
Effect of foreign exchange rates changes	**5,735**	7,558
Cash and cash equivalents at 30 June	**1,098,434**	2,059,363

The notes on pages 33 to 52 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 29 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 25.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. 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 IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendment to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IFRS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

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

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, trading of goods and others 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	
	2022	2021
	RMB'000	RMB'000
DS	**1,384,435**	1,132,896
HSS	**532,480**	427,815
Cutting tools	**418,414**	459,219
Titanium alloy	**164,459**	105,022
Trading of goods	**–**	491,921
Others	**170,372**	–
	2,670,160	2,616,873

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).

(b) Segment reporting

The Group has the following 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.
- *Others* — Others segment assembles and sells power tools.

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 liability, deferred tax liabilities and other head office and corporate liabilities.

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

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

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the periods are set out below.

	Six months ended 30 June 2022					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	1,384,435	532,480	418,414	164,459	170,372	2,670,160
Inter-segment revenue	–	161,402	–	–	–	161,402
Reportable segment revenue	1,384,435	693,882	418,414	164,459	170,372	2,831,562
Reportable segment profit (adjusted EBIT)	124,840	114,454	90,428	28,890	37,362	395,974

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

	As at 30 June 2022					
	DS RMB'000	**HSS RMB'000**	**Cutting tools RMB'000**	**Titanium alloy RMB'000**	**Others RMB'000**	**Total RMB'000**
Reportable segment assets	**5,471,739**	**2,369,487**	**1,163,093**	**556,175**	**150,846**	**9,711,340**
Reportable segment liabilities	**968,778**	**320,913**	**155,246**	**60,287**	**26,715**	**1,531,939**

	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 31 December 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	4,559,564	2,733,938	1,038,044	495,080	22,000	8,848,626
Reportable segment liabilities	688,833	438,775	206,843	46,361	22,000	1,402,812

(Expressed in Renminbi unless otherwise indicated)

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 2022 RMB'000	2021 RMB'000
Reportable segment revenue	**2,831,562**	2,760,158
Elimination of inter-segment revenue	**(161,402)**	(143,285)
Consolidated revenue	**2,670,160**	2,616,873

Profit	Six months ended 30 June 2022 RMB'000	2021 RMB'000
Reportable segment profit	**395,974**	430,066
Net finance costs	**(63,628)**	(68,035)
Share of profits of associates	**11,506**	5,674
Share of (losses)/profits of joint ventures	**(90)**	8,698
Other unallocated head office and corporate expenses	**(14,472)**	(45,376)
Consolidated profit before income tax	**329,290**	331,027

Assets	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Reportable segment assets	**9,711,340**	8,848,626
Interest in associates	**77,255**	61,814
Interest in joint ventures	**35,680**	38,699
Other financial assets	**222,894**	185,310
Deferred tax assets	**52,086**	42,209
Financial assets at fair value through profit or loss	**102,996**	1,651
Pledged deposits	**176,416**	244,191
Time deposits	**1,602,165**	1,749,481
Cash and cash equivalents	**1,098,434**	1,356,881
Other unallocated head office and corporate assets	**33,941**	35,724
Consolidated total assets	**13,113,207**	12,564,586

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 2022 RMB'000	At 31 December 2021 RMB'000
Reportable segment liabilities	**1,531,939**	1,402,812
Interest-bearing borrowings	**2,779,416**	2,638,786
Current taxation	**23,229**	40,955
Deferred tax liabilities	**94,898**	100,091
Other financial liability	**1,496,350**	1,468,050
Other unallocated head office and corporate liabilities	**214,065**	21,335
Consolidated total liabilities	**6,139,897**	5,672,029

(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, and for the purposes of this disclosure only and except where the context requires otherwise, excluding Hong Kong, Macao Special Administrative Region and Taiwan (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 2022 RMB'000	2021 RMB'000
The PRC	**1,006,048**	1,680,697
North America	**602,355**	367,417
Europe	**796,789**	387,223
Asia (other than the PRC)	**237,049**	166,720
Others	**27,919**	14,816
Total	**2,670,160**	2,616,873

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

4 OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Government grants	**21,065**	24,288
Net foreign exchange gains	**39,457**	–
Dividends income	**7,097**	4,865
Net income on sales of scrap materials	**1,956**	3,462
Net gains on disposal of property, plant and equipment	**633**	–
Realised and unrealised gains on structured deposits and wealth management products	**2,004**	11,881
Net realised and unrealised gains on trading securities	**–**	3,577
Others	**956**	418
	73,168	48,491

The subsidiaries of the Group, including Jiangsu Tiangong Tools New Materials Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe"), Jiangsu Tiangong Technology Company Limited ("TG Tech"), Jiangsu Weijian Tools Technology Company Limited ("Weijian Tools") and Jurong Tiangong New Materials Technology Company Limited ("TG New Materials") located in the PRC, collectively received unconditional grants amounting to RMB17,177,000 (six months ended 30 June 2021: RMB20,400,000) 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 2021: RMB3,888,000) during the six months ended 30 June 2022.

5 OTHER EXPENSES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Provision for loss allowance on trade and other receivables	**19,170**	3,213
Charitable donations	**800**	700
Net realised and unrealised losses on trading securities	**655**	–
Net losses on disposal of property, plant and equipment	**–**	9,242
Net foreign exchange losses	**–**	16,245
Others	**8**	75
	20,633	29,475

(Expressed in Renminbi unless otherwise indicated)

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 2022 RMB'000	2021 RMB'000
Interest income		**(22,960)**	(10,104)
Finance income		**(22,960)**	(10,104)
Interest on bank loans		**58,288**	61,689
Interest arising on other financial liability	18	**28,300**	24,750
Less: interest expenses capitalised into property, plant and equipment under construction	9	**–**	(8,300)
Finance expenses		**86,588**	78,139
Net finance costs		**63,628**	68,035

(b) Other items

	Note	Six months ended 30 June 2022 RMB'000	2021 RMB'000
Cost of inventories*		**2,014,959**	1,950,667
Depreciation of property, plant and equipment		**162,693**	145,028
Amortisation of lease prepayments (right-of-use assets)		**1,995**	1,841
Amortisation of intangible assets		**950**	950
Provision for write-down of inventories	12	**24,675**	9,379
Provision for loss allowance on trade and other receivables	13	**19,170**	3,213

* Cost of inventories includes amounts relating to depreciation expenses and provision for write-down of inventories, amounts of which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax		
Provision for PRC Income Tax	**20,920**	37,112
Provision for Hong Kong Profits Tax	**20,749**	738
Provision for Thailand Corporate Income Tax	**366**	606
	42,035	38,456
Deferred tax		
Origination and reversal of temporary differences	**(15,070)**	(1,967)
	26,965	36,489

(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 are subject to a preferential income tax rate of 15% in 2022 available to enterprises which qualify as a High and New Technology Enterprise (2021: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2021: 25%).

(c) Hong Kong Profits Tax has been provided for Tiangong Development Hong Kong Company Limited ("TG Development") at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2022.

(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% (2021: 20%) on the estimated assessable profits arising in Thailand for the six months ended 30 June 2022.

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(Expressed in Renminbi unless otherwise indicated)

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 RMB295,198,000 (six months ended 30 June 2021: RMB290,537,000) and the weighted average of 2,790,376,078 ordinary shares in issue during the interim period (six months ended 30 June 2021: 2,649,444,444).

(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2022 and 2021 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 2022, the Group acquired items of plant and equipment at a cost of RMB188,582,000 (six months ended 30 June 2021: RMB209,318,000), excluding capitalised borrowing costs of nil (six months ended 30 June 2021: RMB8,300,000). There were no material disposals of property, plant and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	**At 30 June 2022 RMB'000**	At 31 December 2021 RMB'000
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)			
– Listed in the PRC	(i)	**140,514**	126,930
– Unlisted equity securities	(ii)	**6,240**	6,240
Financial assets measured at fair value through profit or loss (FVPL)			
– Unlisted units in investment fund	(iii)	**76,140**	52,140
		222,894	185,310

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 RMB6,820,000 were received from these investments during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB4,795,000).

(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 2022 (six months ended 30 June 2021: nil).

(iii) The unlisted units in investment fund are interests in Jinan Financial Fosun Weishi Equity Investment Fund Partnership, Ningbo Meishan Free Trade Port Qian Equity Investment Partnership (Limited Partnership) and CICC Jiatai Private Equity Fund III, (Shenzhen) Partnership (Limited Partnership), which are partnerships incorporated in the PRC. These investments are primarily engaged in or further invested in the industrial and technology sectors. Dividends of RMB277,000 were received from these investments during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB65,000).

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trading securities (Note 20(a))	(i)	**993**	1,651
Wealth management products (Note 20(a))	(ii)	**102,003**	–
		102,996	1,651

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 wealth management products are the Group's subscriptions for wealth management products offered by financial institutions in the PRC. There are no fixed or determinable returns from the wealth management products.

12 INVENTORIES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Raw materials	**162,721**	79,577
Work in progress	**1,384,708**	1,193,409
Finished goods	**984,703**	1,004,624
	2,532,132	2,277,610

During the six months ended 30 June 2022, the Group recognised a write-down of RMB24,675,000 (six months ended 30 June 2021: RMB9,379,000) 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.

(Expressed in Renminbi unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade receivables	**1,687,117**	1,305,126
Bills receivable	**742,004**	663,156
Less: loss allowance	**(102,374)**	(84,948)
Net trade and bills receivable	**2,326,747**	1,883,334
Prepayments	**183,953**	132,280
Other receivables	**185,713**	122,278
Less: loss allowance	**(10,511)**	(6,633)
Net prepayments and non-trade receivables	**359,155**	247,925
	2,685,902	2,131,259

As at 30 June 2022, certain intercompany trade receivables of RMB218,162,000 (2021: RMB175,195,000) 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 2022 RMB'000	At 31 December 2021 RMB'000
Within 3 months	**1,745,328**	1,498,858
4 to 6 months	**255,488**	108,920
7 to 12 months	**229,747**	116,536
1 to 2 years	**73,705**	150,321
Over 2 years	**22,479**	8,699
	2,326,747	1,883,334

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.

14 PLEDGED DEPOSITS

As at 30 June 2022, bank deposits of RMB176,416,000 (2021: RMB244,191,000) 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 2022 are cash at bank and on hand.

16 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Current			
Secured bank loans	(i)	**196,191**	157,544
Unsecured bank loans	(i)	**992,225**	1,015,895
Current portion of non-current unsecured bank loans	(ii)	**420,000**	427,347
		1,608,416	1,600,786
Non-current			
Unsecured bank loans	(iii)	**1,591,000**	1,465,347
Less: Current portion of non-current unsecured bank loans		**(420,000)**	(427,347)
		1,171,000	1,038,000
		2,779,416	2,638,786

Notes:

(i) Current secured bank loans are secured by certain sales contracts at annual interest rates ranging from 0.55% to 2.41% (2021: 0.76% to 0.82%) per annum.

(ii) Current unsecured bank loans carry interest at annual rates ranging from 0.79% to 4.05% (2021: 0.90% to 4.75%) per annum.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.70% to 4.75% (2021: 3.85% to 4.75%) per annum.

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	**420,000**	427,347
Over 1 year but within 2 years	**1,113,000**	579,000
Over 2 years but less than 5 years	**58,000**	459,000
	1,591,000	1,465,347

As at 30 June 2022, the Group's banking facility with one bank is subject to the fulfilment of a covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenant, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with covenants.

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17 TRADE AND OTHER PAYABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade and bills payable	**1,212,257**	1,181,988
Contract liabilities	**22,257**	29,505
Dividends payable	**165,429**	–
Other payables and accrued expenses	**299,643**	162,348
	1,699,586	1,373,841

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 3 months	**713,305**	608,438
4 to 6 months	**330,322**	223,973
7 to 12 months	**143,057**	304,886
1 to 2 years	**14,134**	22,688
Over 2 years	**11,439**	22,003
	1,212,257	1,181,988

18 OTHER FINANCIAL LIABILITY

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Contingent redeemable capital contributions in a subsidiary	**1,496,350**	1,468,050

On 28 December 2020, the Company, TG Tools, Jiangsu Tiangong New Materials Company Limited, China Tiangong (Hong Kong) Company Limited, Precision Tools, TG Aihe, Weijian Tools, TG New Materials, TG Development and certain third party investors (the "Investors") entered into an investment agreement, pursuant to which the Investors would 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. The Group received capital contributions of RMB1,415,000,000 from the Investors.

18 OTHER FINANCIAL LIABILITY (continued)

On 28 December 2020, TG Tools and a partnership in the PRC, being a shareholding vehicle of certain employees of TG Tools, entered into the subscription agreement, pursuant to which the partnership would invest RMB85,000,000 to acquire 1% of the equity interest in TG Tools. The partnership are not entitled to the special rights attributable to the Investors. As at 31 December 2021, the Group received all the capital contributions of RMB85,000,000 from the partnership.

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 during the interim period:

	2022 **RMB'000**	2021 RMB'000
Dividends in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0594 per share (six months ended 30 June 2021: RMB0.0732 per share)	**165,429**	204,594

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 2021).

(b) Purchase of own shares

During the six months period ended 30 June 2022, the Company repurchased its own shares on the Main Board of The Stock Exchange of Hong Kong Limited as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share** HKD	**Lowest price paid per share** HKD	**Aggregate amount paid** HKD'000
March/April 2022	10,000,000	3.43	2.98	32,015

In total, the Company repurchased 10,000,000 ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited at a consideration of HKD32,015,000 (equivalent to approximately RMB26,018,000). All the repurchased shares were cancelled during the six-month period ended 30 June 2022 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 cancelled of RMB168,000 was transferred from share capital to the capital redemption reserve, and the balance of RMB26,018,000 reduced the share premium.

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 2022	Fair value measurement at 30 June 2022 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
– Listed equity securities – SESH	**74,974**	**74,974**	**–**	**–**
– Listed equity securities – NEEQ	**65,540**	**–**	**–**	**65,540**
– Unlisted equity securities	**6,240**	**–**	**–**	**6,240**
– Unlisted units in investment funds	**76,140**	**–**	**–**	**76,140**
Financial assets at fair value through profit or loss:				
– Listed equity securities	**993**	**993**	**–**	**–**
– Wealth management products	**102,003**	**–**	**102,003**	**–**
Trade and other receivables:				
– Bills receivable	**106,607**	**–**	**106,607**	**–**

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 2021	Fair value measurement at 31 December 2021 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
– Listed equity securities – SESH	61,390	61,390	–	–
– Listed equity securities – NEEQ	65,540	–	–	65,540
– Unlisted equity securities	6,240	–	–	6,240
– Unlisted units in investment funds	52,140	–	–	52,140
Financial assets at fair value through profit or loss:				
– Listed equity securities	1,651	1,651	–	–
Trade and other receivables:				
– Bills receivable	133,219	–	133,219	–

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

The fair value of wealth management products is calculated by discounting the expected future cash flows. The fair value measurement is positively 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.

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

(iii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Equity securities	Valuation multiples (Note i)	Changing trend of medium market multiples of comparable companies
Units in investment funds	Net asset value (Note ii)	Net asset value of underlying investments

Notes:

(i) The fair value of equity securities is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at June 30, 2022, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's other comprehensive income by RMB2,692,000 (2021: RMB2,692,000).

(ii) The fair value of units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at June 30, 2022, it is estimated that with all other variables held constant, an increase/decrease in fair value of units in investment funds by 5% would have increased/decreased the Group's profit for the period by RMB2,855,000 (2021: RMB1,955,000).

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 30 June 2022 RMB'000	At 30 June 2021 RMB'000
Unquoted equity securities and units in investment funds:		
At 1 January	**123,920**	81,210
Payment for purchase of other financial assets	**24,000**	–
Proceeds from disposal of other financial assets	**–**	(282)
At 30 June	**147,920**	80,928

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 2022 and 31 December 2021.

21 RELATED PARTY TRANSACTIONS

The Group had transactions with associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the condensed 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	
	2022	2021
	RMB'000	RMB'000
Sales of goods to:		
Joint ventures	**292,637**	130,921
Associates	**202,850**	181,732
	495,487	312,653

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 2022 RMB'000	At 31 December 2021 RMB'000
Joint ventures	**544,602**	424,813
Associates	**72,632**	65,846
	617,234	490,659

(c) Amounts due to related parties

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Associates	**289**	361
	289	361

22 COMMITMENTS

Capital commitments outstanding at 30 June 2022 not provided for in the interim financial report.

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Contracted for	**104,123**	138,169
Authorised but not contracted for	**817,396**	883,918
	921,519	1,022,087

23 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 19 August 2022, Jiangsu Tiangong Precision Tools Company Limited, a wholly-owned subsidiary of the Company agreed to acquire the entire equity interest of Jiangsu Tianguan Precision Machinery Development Co., Ltd. ("Tianguan"), which is a company principally engaged in research and development, manufacturing and sales of cutting tools related products in the PRC, from Smart Rich Industrial Limited at a consideration of RMB276,000,000. As at the date of this report, the acquisition of Tianguan has not yet been completed.