



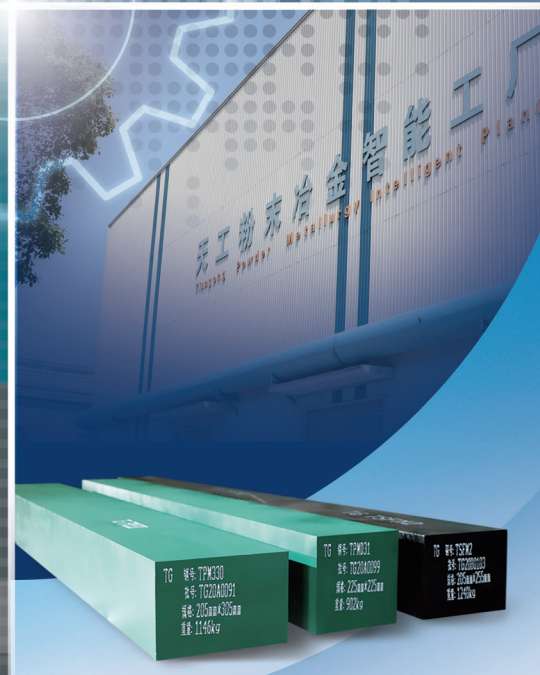
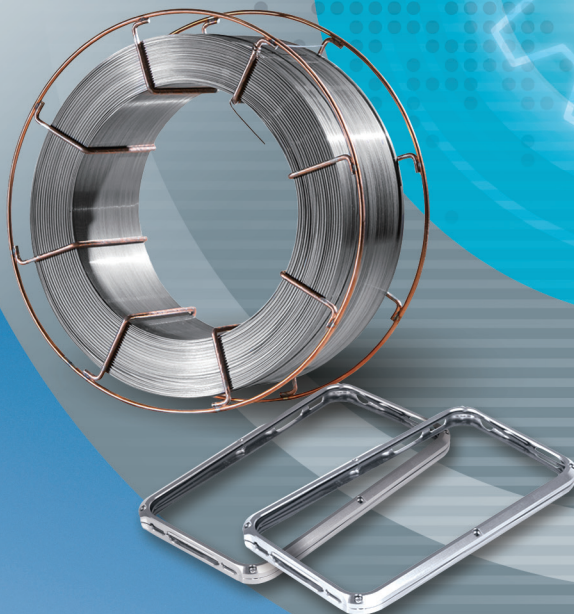
天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

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

INTERIM REPORT

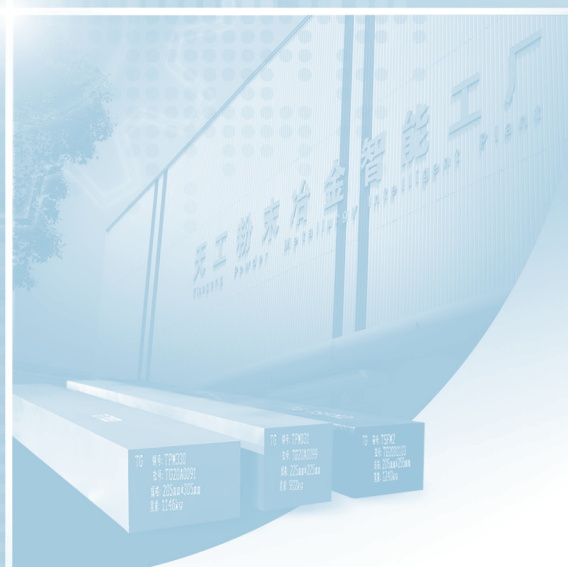
2023



* For identification purposes 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. Zhu Zefeng

Mr. Wu Suojun

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

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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 Accounting and

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HONG KONG LEGAL ADVISER

Reed Smith Richards Butler LLP

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17th Floor

Hopewell Center

183 Queen's Road East, Wanchai

Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation

Industrial and Commercial Bank of China Limited

Bank of China Limited

Agricultural Bank of China

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					
	2023		2022		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel ("DS")	1,145,497	45.9	1,384,435	51.8	(238,938)	-17.3
High speed steel ("HSS")	381,901	15.3	532,480	19.9	(150,579)	-28.3
Cutting tools	447,497	17.9	418,414	15.7	29,083	7.0
Titanium alloy	461,239	18.5	164,459	6.2	296,780	180.5
Others	60,277	2.4	170,372	6.4	(110,095)	-64.6
	2,496,411	100.0	2,670,160	100.0	(173,749)	-6.5

DS - accounted for approximately 45.9% of the Group's revenue in 1H2023

	For the six months ended 30 June					
	2023		2022		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	374,722	32.7	475,137	34.3	(100,415)	-21.1
Export	770,775	67.3	909,298	65.7	(138,523)	-15.2
	1,145,497	100.0	1,384,435	100.0	(238,938)	-17.3

DS is manufactured using rare metals including molybdenum, chromium and vanadium, etc, a type of high alloy special steel. DS is mainly used in processing mould, known as the mother of modern industry. Many different manufacturing industries require moulds, including automotive, high-speed railway construction, aviation and plastic product manufacturing industries.

After the haze of the COVID-19 dissipated, except for new energy vehicles, the recovery of most industries was below expectation, resulting in a generally weak demand for DS in various downstream industries. Constrained by the slowdown in demand, the domestic revenue of the DS segment of the Group recorded a decrease of 21.1% to RMB374,722,000 (1H2022: RMB475,137,000). Nevertheless, the domestic demand was gradually improved in the second quarter of 2023 and is expected to recover in an orderly manner.

In terms of exports, in the context of high inflation, European and American countries raised interest rates to varying degrees, and maintained high interest rates for a period of time. Consequently, overseas customers became more cautious with their capital investment projects, resulting in a gradual slowdown in demand for steel products. Export revenue of DS segment recorded a decrease of 15.2% to RMB770,775,000 (1H2022: RMB909,298,000).

In the first half of 2023, the Group's overall turnover of DS segment decreased by 17.3% to RMB1,145,497,000 (1H2022: RMB1,384,435,000).

Management Discussion and Analysis

HSS – accounted for approximately 15.3% of the Group's revenue in 1H2023

	For the six months ended 30 June					
	2023		2022		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	182,980	47.9	219,540	41.2	(36,560)	-16.7
Export	198,921	52.1	312,940	58.8	(114,019)	-36.4
	381,901	100.0	532,480	100.0	(150,579)	-28.3

HSS, manufactured using rare metals including tungsten, molybdenum, chromium, vanadium and cobalt, etc., 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.

Similar to the situation of DS, the recovery of most domestic industries was below expectation. With the advancement of domestic industries such as new energy vehicles, aerospace and high-tech industries, the market demand for high-end products (including powder metallurgy products) witnessed a steady expansion. The Group successfully captured this market segment as the first HSS supplier in China with expertise in powder metallurgy technology. The average selling price rose steadily, which partially offset the impact of the decline in demand. The overall domestic revenue of HSS segment decreased by 16.7% to RMB182,980,000 (1H2022: RMB219,540,000).

In terms of export, limited by the decline in demand caused by the digestion of inventory in overseas downstream segments (see the description of the cutting tools segment for details), and coupled with the impact of the macroeconomic downturn, sales volume declined significantly, resulting in a decrease in the export revenue of the HSS segment by 36.4% to RMB198,921,000 (the first half of 2022: RMB312,940,000).

Overall turnover of HSS segment decreased by 28.3% to RMB381,901,000 (1H2022: RMB532,480,000).

Cutting tools – accounted for approximately 17.9% of the Group's revenue in 1H2023

	For the six months ended 30 June					
	2023		2022		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	177,477	39.7	148,693	35.5	28,784	19.4
Export	270,020	60.3	269,721	64.5	299	0.1
	447,497	100.0	418,414	100.0	29,083	7.0

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 included bars, blades and integral tools.

Management Discussion and Analysis

Domestic sales volume of the cutting tools segment were basically similar to that of the same period of the previous year. The increase in average selling price of cutting tools segment was mainly due to the gradual increase in the sales mix of powder metallurgy HSS cutting tools and carbide cutting tools by the Group. Accordingly, the domestic revenue of the cutting tools segment increased by 19.4% to RMB177,477,000 (1H2022: RMB148,693,000).

The export volume of the cutting tools segment declined compared with the same period of the previous year. It was mainly due to the fact that overseas DIY cutting tools distributors were in the final phase of digesting the accumulated inventories and therefore there was a decrease in purchase orders received from the overseas distributors. On the other hand, affected by the transmission of the upstream HSS price increase, the average selling price increased compared with the same period of the previous year. In the first half of 2023, the export revenue increased slightly by 0.1% to RMB270,020,000 (the first half of 2022: RMB269,721,000).

In the first half of 2023, the revenue of the Group's cutting tools segment increased by 7.0% to RMB447,497,000 (1H2022: RMB418,414,000).

Titanium alloy – accounted for approximately 18.5% of the Group's revenue in 1H2023

	For the six months ended 30 June					
	2023		2022		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	456,278	98.9	162,764	99.0	293,514	180.3
Export	4,961	1.1	1,695	1.0	3,266	192.7
	461,239	100.0	164,459	100.0	296,780	180.5

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

The revenue generated by the titanium alloy segment during the current period primarily stemmed from domestic sales. A substantial increase of 180.5% over the same period last year to RMB296,780,000 was noted. It was mainly due to the Group's cooperation with a domestic consumer electronics processor, allowing the Group to officially enter the 3C (computer, communication and consumer electronics) supply chain and to provide frame materials for an internationally renowned consumer electronics manufacturers. Both the sales volume and the average selling price of the current period increased significantly compared with the same period last year as the internationally renowned manufacturer entered the mass production stage of its new models in the current period. At the same time, the titanium alloy products selected by the internationally renowned manufacturer were also a high-standard model. The substantial increase in the sales volume of titanium alloy products with a higher average selling price changed the product structure of the segment, resulting in a substantial increase in the average selling price of products in the titanium alloy segment in the current period.

At present, the Group's titanium alloy segment is predominantly focused on the domestic market. However, the processed end products manufactured using the Group's products are expected to make significant impact in the international consumer electronics market, thereby enhancing the international recognition of the Group's products and provide an excellent platform for exploring the international market.

The Group is actively exploring the international market, including titanium alloy materials for 3D printing and medical industry, so as to increase its international market share.

Management Discussion and Analysis

Others – accounted for approximately 2.4% of the Group’s revenue in 1H2023

The other segment was the assembly and export sales business derived from the electric tools products of existing cutting tools customers, so as to extend downstream and provide more diversified products and services. By purchasing raw materials like hardware, plastic and electronic components from suppliers, after assembling and packaging, the products were finally sold 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					
	2023		2022		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Export	60,277	100.0	170,372	100.0	(110,095)	(64.6)

Affected by factors such as the global macroeconomic downturn and overcapacity in the electrical and electronics industries, segment revenue for the current period decreased by approximately RMB110,095,000, or approximately 64.6%, compared with the same period of the previous year.

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company decreased by 25.9% from RMB295,198,000 in the first half of 2022 to RMB218,700,000 in the first half of 2023. Detailed review of the individual components were as follows:

Revenue

Revenue of the Group for the first half of 2023 totalled RMB2,496,411,000, representing a decrease of 6.5% when compared with RMB2,670,160,000 in the first half of 2022. As the recovery of the manufacturing industry was below expectation, except for a few industries such as new energy vehicles and certain consumer electronics, downstream demand was in a state of contraction. New orders from consumer electronics industry for titanium alloys and domestic sales of high-end cutting tools became the main drivers of turnover in the first half of 2023. For an analysis of individual segments, please refer to the “Business Review” section.

Cost of sales

The Group’s cost of sales decreased from RMB2,014,959,000 for the first half of 2022 to RMB1,926,849,000 for the first half of 2023, representing a decrease of 4.4%. The decrease was mainly due to the decrease in the sales and production of tools steel during the period.

Management Discussion and Analysis

Gross margin

For the first half of 2023, gross margin was 22.8% (1H2022: 24.5%). Set out below is the gross margin for the five segments of the Group for the first half of 2022 and 2023:

	For the six months ended	
	30 June	
	2023	2022
DS	16.4%	21.5%
HSS	17.6%	24.3%
Cutting tools	24.6%	28.5%
Titanium alloy	31.2%	20.2%
Others	23.2%	21.9%

DS

Demand was weak causing a unsmooth cost transmission of price increment in raw materials (i.e rare metals). In addition, production volume decreased causing the average unit cost to increase. As a result, the gross margin of DS decreased from 21.5% in 1H2022 to 16.4% in 1H2023.

HSS

Similar situation as DS was noted in HSS segment. Despite higher valued added powder metallurgy products contributed an additional gross margin compared to DS, the overall gross margin of HSS decreased from 24.3% in 1H2022 to 17.6% in 1H2023.

Cutting tools

Gross margin of cutting tools decreased from 28.5% in 1H2022 to 24.6% in 1H2023. It was mainly because the output of cutting tools decreased compared to 1H2022. The decrease in scale effect led to an increase in average unit cost. On the other hand, the increase in sales mix of high-margin powder metallurgy tap products help offsetting negative impact of decrease in production scale.

Titanium alloy

Since the fourth quarter of 2022, the Group officially entered the consumer electronics market by providing titanium alloy coil to certain consumer electronic processor which was then used as a key component in the production of consumer electronic products by an internationally renowned manufacturer. The products supplied to this end customer were in higher standard and yielded higher gross margin compared to the traditional products. Gross margin of titanium alloy increased from 20.2% in 1H2022 to 31.2% in 1H2023.

Others

Others segment related to the assembly and sales of power tool kits to an existing customer. The Group aimed to expand downstream and provide more diversified products and services. The gross margin of this segment might fluctuate depending on the demand from end market.

Management Discussion and Analysis

Other income

The Group's other income increased from RMB73,168,000 in the first half of 2022 to RMB101,969,000 in the first half of 2023. During the first half of 2023, USD and EUR inflated significantly against RMB. The Group's net monetary assets denominated in USD and EUR, which mainly arise from the export business, resulted in exchange gain during the first half of 2023.

Distribution expenses

The Group's distribution expenses were RMB57,238,000 (1H2022: RMB123,095,000), representing a decrease of 53.5%. Export revenue decreased by 21.6% from RMB1,664,026,000 in the first half of 2022 to RMB1,304,954,000 in the first half of 2023. In addition to the decline in export revenue, shipping cost was affected by the global economic environment in this period. Most of the ports adopted preferential policies for shipping, leading to a decrease in the average shipping price compared with the same period in 2022.

Administrative expenses

For the first half of 2023, the Group's administrative expenses was RMB73,409,000 (1H2022: RMB64,922,000) representing an increase of 13.1%. The increase was mainly due to some one-off expense including improvement on safety and environmental measure and professional fee incurred for due diligence on a potential acquisition. For the first half of 2023, administrative expenses as a percentage of revenue was 2.9% (1H2022: 2.4%).

Research and development expenses

The number of research and development projects in progress increased during the first half of 2023. Besides, the project were more related to high alloy composition products which led to an increase in material cost in carrying out those research and development projects. As a result, the research and development expenses increased from RMB138,217,000 in the first half of 2022 to RMB164,091,000 in the first half of 2023.

Net finance costs

The Group's net finance costs increased from RMB63,628,000 in the first half of 2022 to RMB81,781,000 in the first half of 2023, which was the result of higher average balance of interest-bearing bank loans during the period.

Income tax expense

The Group's income tax expense decreased from RMB26,965,000 in the first half of 2022 to RMB24,449,000 in the first half of 2023. The decrease was mainly due to the decrease in taxable income. The effective tax rates were comparable in both first half of 2022 and 2023.

Profit for the period

As a result of the factors set out above, the Group's profit decreased by 19.8% to RMB242,338,000 for the first half of 2023 from RMB302,325,000 for the first half of 2022. The Group's net profit margin for the first half of 2023 was 9.7% (1H2022: 11.3%). The decrease was mainly due to the squeezing of gross profit margin as a result of weakening of product demand for tools steel.

Profit attributable to equity shareholders of the Company

For the first half of 2023, profit attributable to equity shareholders of the Company was RMB218,700,000 (1H2022: RMB295,198,000), representing a decrease of 25.9%.

Management Discussion and Analysis

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., 寧波梅山保稅港區啟安股權投資合夥企業(有限合夥) (Ningbo Meishan Free Trade Port Qian Equity Investment Partnership (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)*), Ji'nan Financial Fosun Weishi Equity Investment Fund Partnership (Limited Partnership) and 丹陽博雲恒天大工業投資中心(有限合夥) (Danyang Boyun Hengda Tiangong Industrial Investment Center (Limited Partnership)*). All of these investments were stated at their fair value. The increase was caused by an increase in fair market value of certain of these financial assets.

Financial assets measured at fair value through profit or loss

The financial assets measured at fair value through profit or loss included trading securities. The decrease was caused by the price fluctuation of the investments.

Trade and bills receivable

Net trade and bills receivable increased from RMB2,285,661,000 as at 31 December 2022 to RMB2,646,532,000 as at 30 June 2023. Loss allowance of RMB139,970,000 (2022: RMB111,645,000) accounted for 5.0% (2022: 4.7%) of the trade and bills receivable. 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 RMB1,659,779,000 as at 31 December 2022 to RMB2,001,684,000 as at 30 June 2023. The increase was mainly caused by (i) the 2022 dividend payable which was recognized as liability until it was approved in the Company's annual general meeting held on 6 June 2023 and (ii) increase in ordering spongy titanium as a raw material to fulfil the increased sales order of titanium alloy segment.

INDUSTRY REVIEW

In pursuing economic development during the first half of 2023, China faces the triple pressures in the form of shrinking demand, disrupted supply and weakening expectations. However, there are signs of gradual easing, primarily due to the increasing contribution of domestic demand to economic growth. China's gross domestic product (GDP) growth rate in the first quarter reached 4.5%, surpassing market expectations. Driven by government policies that boost consumption, the vitality and consumption power of the service industry released quickly. Overall consumer spending power experienced moderate recovery in the second quarter, leading to a GDP growth rate of 6.3% in the second quarter. Coupled with sustained growth in infrastructure investments, investments in high-tech industries are expected to provide support to manufacturing growth. Downstream demand is expected to rebound, stabilize and begin a gradual recovery in an orderly manner.

In terms of overseas markets, the global economic downturn has shown signs of easing, accompanied by a decrease in inflation levels towards the end of 1H2023. The global service sector experienced stable recovery. In particular, economies where consumer spending accounts for a significant share of their GDP, such as Europe and the United States, outperformed expectations. However, despite the improvement in economic conditions, global economic growth remained constrained by unfavorable factors, such as tight monetary policies and weak consumer sentiment. Moreover, declined trade and investment demand, coupled with the "onshoring" production of the global industrial chain, has led to further reduction in the scale of trade in intermediate and finished goods, which will continue to constrain production and exports in emerging economies in the Asia-Pacific region.

During the period under review, the operating conditions of the steel industry remained uncertain at home and abroad, leading to a further decline in profitability on a year-on-year basis. According to statistics published by the China Iron and Steel Association, in the first six months of 2023, the operating revenue of key steel enterprises was RMB3.19 trillion, representing a year-on-year decrease of 5.56%. Operating cost decreased by 3.06% year-on-year. Operating revenue declined additional 2.5 percentage points compared to operating cost. Total operating profit was RMB33 billion, representing a year-on-year decrease of 68.8%. Average profit margin was 1.03%, representing a year-on-year decrease of 2.1 percentage points. Nevertheless, the loss making percentage further narrowed to 44.6%, represented an increase of 17.4 percentage points over the same period last year.

Management Discussion and Analysis

MARKET REVIEW

In the first half of 2023, mainstream enterprises found it challenging to release their production output in a sustainable manner due to a prolonged period of low profitability or even loss-making in the DS sector during the period. Consequently, the domestic production of DS during the first half of the year was significantly lower than the same period last year. However, new energy vehicles gradually became a growth engine for die steel, driving steady growth in the automotive mold industry. According to data from the China Association of Automobile Manufacturers, during the first half of the year, automobile production and sales increased by 11.1% year on year to 10.687 million and 10.617 million vehicles, respectively, indicating positive growth in terms of cumulative production and sales. In terms of policy support, in June this year, the State Council convened an executive meeting to explore policies and measures to promote the high-quality development of the new energy automobile industry, which will further release the potential of new energy vehicles to drive the mold market.

Cutting tools are the main application market for HSS and certain alloy steel. In recent years, the machine tool industry has witnessed a significant increase in export volume, establishing itself as a key driver of demand. According to data of China Customs, China's export volume from the machine tool industry increased from approximately US\$13.61 billion in 2018 to US\$20.95 billion in 2022, representing a growth of 54%. From January to June 2023, the total export volume of the machine tool industry reached US\$10.34 billion, representing a year-on-year increase of 4.5%. The accelerated export in the domestic machine tool and cutting tools industries was attributed to the surge in regional demand driven by geopolitical factors and continuing improvement in the quality of domestic machine tools and cutting tools, which now is in position to compete with their overseas counterparts. As overseas regions experience economic growth and rising demand, this trend will benefit the leading domestic companies to further increase their share of overseas business. In addition, given a significant gap between the utilization rate of computer numerical control (CNC) in China's metal processing machine tool and that of advanced countries, the high-speed development of CNC machine tool is an inevitable trend. As China's manufacturing industry continues its high-end transformation, the development of smart CNC metal processing machine tool has become an essential approach to meet the requirements of high-complexity and high-precision metal processing. According to data published by the China Machine Tool Industry Association (中國機床行業協會) and www.chyxx.com (智研諮詢), in 2022, the CNC rate of metal cutting machine tool and metal forming machine tool in China was only 46.3% and 11.3%, respectively, indicating that there is still significant potential for the development of CNC machine tool.

In terms of policies, the National Development and Reform Commission implemented certain policies in June this year which promoted the accelerated mergers in industries such as steel, with the aim of enhancing industrial modernization, strengthening the real economy, and promoting the digital transformation of traditional industries. At the same time, the Ministry of Industry and Information Technology, the Ministry of Education, the Ministry of Science and Technology, the Ministry of Finance, and the State Administration for Market Regulation jointly issued the "Implementation Opinions on Enhancing Manufacturing Industry Reliability" (the "Implementation Opinions") with the goal of improving the reliability of products in industries such as machinery, electronics, and automobiles. Currently, there are still room for improvement in the reliability of certain foundational and complete machine products in China, such as precision reducers, high-end bearings, and advanced semiconductor materials. The Implementation Opinions plan to enhance the reliability of core components and materials through "Industrial Foundation Improvement" projects, meaning strengthening the industry base, to strengthen the reliability of related products. Furthermore, in accordance with the earlier "Guiding Opinions on Promoting High-Quality Development of the Steel Industry" jointly issued by the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Ecology and Environment, efforts are being made to pave the way for high-quality development in the steel industry by 2025. Steel enterprises are encouraged to continuously enhance their independent innovation capabilities, with the optimization of industrial structure and the development of green and low-carbon practices as the primary goals. These policies will further consolidate the development of China's steel industry, align it with international standards, and facilitate the pursuit of high-quality global competitiveness.

The titanium alloy industry has historically faced challenges with high costs. As a result, titanium alloys have found more widespread applications in areas such as aerospace and marine engineering, where price sensitivity is lower. Yet, use of titanium alloy is more limited in consumer-oriented sectors including biomedicine and consumer electronics. In recent years, the cost issue has gradually been addressed. On one hand, the increasing demand for product quality from consumers has led to a growing market demand for titanium alloys in civilian markets. On the other hand, technologically advanced companies have significantly improved the performance of titanium alloys, increasing their acceptance in the market and expanding their application scope. These efforts have provided a key driving force for the rapid expansion of titanium alloys in the civilian market and have propelled the titanium alloy industry onto a high-growth trajectory.

Management Discussion and Analysis

ACCOMPLISHMENTS

The Jiangsu Provincial Department of Industry and Information Technology recently announced that TG Tech, a subsidiary of the Company, has been successfully selected as a national-level “Small Giant” enterprise with specialized, sophisticated techniques and unique, novel products, which is recognized by the Ministry of Industry and Information Technology and represents leading companies that focus on niche markets, possess strong innovation capabilities, have a high market share, control key core technologies, and demonstrate superior quality and efficiency. This is a significant recognition of the Group’s technological strength, product capabilities, and innovation abilities.

On 15 June 2023, the Resolution Regarding the Company’s Application for the Public Issuance of Stocks and Listing on the Beijing Stock Exchange was passed at the general meeting of TG Tech, marking an important step for TG Tech to be listed on the Beijing Stock Exchange. The proceeds raised from this listing will be used for the construction of a production line for high-end titanium and titanium alloy rods and coil with an annual output of 3,000 tons. This will significantly strengthen the Group’s production capacity and scale advantage in the titanium alloy field, which will in turn help optimize the product line structure and enhance our comprehensive capabilities.

FUTURE OUTLOOK

Operation Strategy

The Group has been leading the industry with its professional equipment, technological and managerial advantages. Over the year, the Group has been focusing on research and development and cost control, and is committed to transforming its long-standing achievements and experience into innovative applications in the steel metallurgy industry, thereby empowering the development and upgrade of the industry, while also striving to meet the domestic market demand and gain international market share. Precise strategies, efficient execution ability and world-leading technology are the three cores pillars of the Group.

Domestic industry development

In recent years, the steel industry has experienced supply-side fluctuations as a result of capacity expansion, policy restrictions, profitability levels, and other factors. In recent years, policies have played a prominent role in regulating and optimizing the industrial landscape from various aspects, such as production capacity, output, and environmental protection. Following structural reforms on the supply side, steel enterprises have improved their capacity for self-adjustment amidst the increasing industrial concentration, leading to the optimization and development of the industry structure.

On the demand side, the downstream of the mechanical industry is broad, involving a wide variety of steel products. The automotive industry continues to provide growth impetus to the steel industry, in which new energy vehicles place more emphasis on lightweight development. In accordance with the implementation of the “Development Plan for the New Energy Vehicle Industry (2021-2035)” announced by the PRC State Council, the new energy vehicle industry will drive an increase in demand for upstream industries.

Meanwhile, China’s titanium alloy industry is accelerating its transformation pace, with the civilian titanium market holding great potential. In recent years, with the promotion of domestic high-end titanium applications in military and aerospace fields such as aircraft fuselage structures, aviation engines, missiles and ships, the domestic titanium alloy industry has gradually moved towards high-end development, constantly accumulating technological and innovative achievements. As the cost of titanium alloys decreases and their excellent performance is increasingly recognized, the civilian market has also begun to open up gradually. Such fields as nuclear power, aviation, and healthcare also see a growing application of titanium alloy products. Additionally, domestic titanium alloy applications see active expansion in sectors such as outdoor sports and daily consumption, leading to the constant growth of the entire industry chain in terms of branding, design and marketing. The downstream market is steadily expanding, demonstrating the broad development space of the civilian titanium alloy market.

Management Discussion and Analysis

Export operation

China's steel consumption is primarily driven by domestic demand. However, China's steel exports have always occupied an important position in the global market for some years. As the industry continues to evolve, the special steel sector is developing towards globalization and deep processing. In recent years, the special steel sector has maintained steady growth and continues to promote high-end development. The new demand for special steel comes from the improvement and continuous upgrading of domestic demand, as well as the expansion of exports driven by global trend of marketization. Overseas special steel leaders place great emphasis on the quality of local enterprises' products and the innovation of high value-added products, thereby driving technological progress throughout the entire industry chain. In China, the special steel industry has also developed different levels of advantageous products with distinctive characteristics, and has reached collaborative cooperation with a wide range of downstream industries. As of 2022, the crude steel output of key high-quality special steel enterprises in China reached 146 million tons, accounting for 14.4% of the country's total crude steel production.

Against the backdrop of the global pandemic and the Russia-Ukraine conflict, the price difference in imports and exports has rapidly narrowed, reflecting the changes and instability in the international market. In 2022, China's exports of special steel products reached 11.46 million tons, with an average unit price of US\$1,840 per ton, while imports of special steel products amounted to 5.19 million tons, with an average unit price of US\$2,106 per ton. These statistics reveal the competitive position of China's special steel industry in the global market and reflect the price dynamics and demand trends in the international special steel market. As China's special steel industry continues to advance towards high-end and specialization with an active exploration into new markets and application fields, it will continue with steady growth on the international stage.

Overseas expansion

Guided by its globalisation strategy, the Group has established a diversified overseas sales network. The second phase of the plants in Rojana Rayong Pluak Daeng Industrial Park, Rayong, Thailand was officially launched in 2022 and is expected to be completed in the second half of this year with a designed production capacity of 50 million pieces, bringing the total production capacity of the two-phase project to approximately 100 million pieces, doubling the cutting tools overseas production capacity. This project not only strengthens the production capacity of the Group but also actively responds to the demand in overseas markets. It also demonstrates the Group's keen insight into global market trends. The Group will continue to optimize and consolidate its current overseas layout in respond to the recovery of overseas demand and global uncertainties.

Product Development Strategy

Powder Metallurgy Industry

With the official completion and launch of its first large-scale industrial DS powder metallurgy production line in the PRC in December 2019, the Group successfully entered the powder metallurgy industry. Standing as the only enterprise in the domestic cutting tools realm with a comprehensive industry chain, from high-end powder materials to powder tools, the Group has made significant breakthroughs in overcoming foreign technical monopolies and tapping into the high-end market.

During the period under review, the Group showed continuous vitality in the field of powder metallurgy, with ongoing progress in the research and development of high-end products. In the first half of 2023, the sales volume of our powder metallurgy products showed a steady growth trend. In addition, the Group is vigorously promoting the application of powder metallurgy HSS cutting tools, including powder metallurgy taps and powder metallurgy drill bits. An additional production capacity of 5 million pieces of powder metallurgy taps will be initiated soon to achieve import substitution. These achievements serve as strong evidence of the Group's progress in the high-end transformation of our products. As these projects continue to advance, the Group's profitability will gradually be unleashed, demonstrating higher competitive advantages and market expansion potential.

Management Discussion and Analysis

Diversified Cutting Tools Industry

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

During the period under review, the Group's cutting tools products covered traditional HSS cutting tools, powder metallurgy HSS cutting tools and carbide cutting tools. In particular, carbide products included three major products, namely blades, cutting tools and rods. These products collectively form a complete and specialized cutting tools product system capable of meeting cutting needs in different fields and levels. The Group intends to actively develop into a one-stop solution provider for cutting tools, which could seize the opportunities brought by the continuous growth in demand for different cutting tools products and further consolidate the Group's leading position in the global cutting tools market.

Titanium Alloy Industry

Titanium alloy coil made from titanium are used in a wide range of applications, and its customizable characteristic enables it to be used in downstream scenarios such as eyeglass frames, 3D printing and 3C (computer, communication and consumer-electronics) products. Moving forward, the Group will continue to explore the market for titanium alloy coil by actively coordinating with downstream customers to develop more application projects.

TG Tech, a subsidiary of the Company, has entered into an important cooperation with a domestic consumer electronics supply chain processor since 2022. The cooperation involves the use titanium alloy coil produced by TG Tech to manufacture frames which are then used by renowned consumer-electronics manufacturers as a key component of their end products. Since the formation of this cooperation alliance with the domestic processor, the average selling price, revenue, and business contribution of the Group's titanium alloy products have significantly increased, becoming a major driving force behind the overall revenue growth of the Group. This breakthrough in the consumer electronics sector not only marked a milestone in the development of the Group's titanium alloy business but also held significant importance in enhancing our brand awareness and market competitiveness, which in turn will help further exploration of potential new customers. Furthermore, the Group continued to develop other titanium alloy-related consumer products, including the eyewear industry and 3D printing, and is actively considering expanding titanium alloy production capacity to meet the growing demand from new orders.

As a pioneer in the Chinese titanium alloy industry, the Group has gradually grown into a leading enterprise in the civilian titanium alloy sector. The rapid growth of the titanium alloy business is expected to become a new growth engine for the Company, driving the Group's continuous advancement in diversification and high-end development, further reinforcing its leading position in the industry.

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.

Management Discussion and Analysis

Green Development

In January 2022, the “Guiding Opinions on Promoting the High-Quality Development of the Iron and Steel Industry” (《關於促進鋼鐵工業高質量發展的指導意見》) was jointly issued by the National Development and Reform Commission, the Ministry of Ecology and Environment and the Ministry of Industry and Information Technology, clearly proposing the construction of a resource recycling system and requiring the completion of the ultra-low emission transformation of over 80% of steel production capacity. The Guiding Opinions also set specific targets, including reducing comprehensive energy consumption per tonne of steel by more than 2% and decreasing water consumption intensity by more than 10%, so as to ensure carbon peaking is achieved by 2030. Subsequently, the “Implementation Plan for Carbon Peaking in the Industrial Sector” (《工業領域碳達峰實施方案》) was jointly issued by the National Development and Reform Commission, the Ministry of Ecology and Environment and the Ministry of Industry and Information Technology in July 2022, which further affirmed the government’s determination for the transformation of the iron and steel industry. It proposed breakthroughs and application goals for technologies such as hydrogen-rich carbon-cycle BF ironmaking (富氫碳循環高爐冶煉), hydrogen-based direct-reduction ironmaking in a shaft furnace (氫基豎爐直接還原鐵), and carbon capture, utilization and storage (CCUS), and expected the proportion of short-process steelmaking to exceed 20%.

Considering the direction of relevant policies, low-carbon and environmentally friendly development will undoubtedly become a prerequisite for the survival and growth of steel enterprises in their next stage. This is not only an important realization of corporate social responsibility, but also a key driver for the entire iron and steel industry to move towards high-quality and sustainable development.

The Group has always been adhering to the core concept of “Green Development” and would never sacrifice the environment in exchange for corporate development. Over the years, the Group has invested heavily in environmental protection equipment, such as a large-scale wastewater treatment centre with a total investment of over RMB20 million. TG Tools, a subsidiary of the Group, was included in the list of “City-level Green Factory” in 2022” released by the Industry and Information Technology Bureau of Zhenjiang City.

During the period under review, the Group made active efforts to enhance the disclosure of its environmental, social, and governance performance. According to public information from the S&P Global Corporate Sustainability Assessment, the Group’s sustainable development performance in both 2021 and 2022 was above the industry average. In 2022, the Group ranked among the leading players in the Chinese steel industry, with marked improvement in scores related to corporate governance and social aspects during the period under review, demonstrating the Group’s commitment to sustainable development. Moving forward, while vigorously developing its business, the Group will continue to devote itself to environmental protection and play a leading role in the “green manufacturing” system.

Information Technology

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 made significant investments to create a comprehensive digital information system, “Digital Tiangong”, encompassing all of the Group’s business sectors. 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 will effectively improve the performance of network procurement, comprehensively enhance the synergy of the industrial supply chain, and greatly enhance the competitiveness of the Group. In the meantime, the second phase of the smart manufacturing project “Digital Tiangong” was officially launched in June 2021, enabling the Group to transform from traditional manufacturing to advanced manufacturing. “Digital Tiangong” is a project involving reform of management technology and methods. After two years of efforts, the Group has built a unified digital platform, which enables efficient operation of various business units of the Group, thus laying the foundation for further scalable development.

During the period under review, the Group’s Tiangong Alloy Melting Smart Factory Project was officially launched. The completion of this comprehensive digitalization and informatization of the alloy melting workshop will establish a systematic management of the whole process from raw materials 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 high corporate governance standards and lead the industry to move forward.

FORWARD LOOKING STATEMENTS

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

Forward looking statements involve inherent risks and uncertainties. Readers, including shareholders and 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 2023, the Group's current assets mainly included cash and cash equivalents of RMB1,245,984,000, inventories of RMB2,725,573,000, trade and other receivables of RMB3,098,060,000, time deposits of RMB1,570,275,000 and pledged deposits of RMB281,541,000. The Group's current assets were RMB8,922,457,000 compared to RMB7,918,937,000 as at 31 December 2022, an increase of 12.7%.

As at 30 June 2023, interest-bearing borrowings of the Group were RMB3,452,918,000 (31 December 2022: RMB2,895,313,000), RMB2,704,018,000 (31 December 2022: RMB1,866,813,000) of which were repayable within one year and RMB748,900,000 (31 December 2022: RMB1,028,500,000) 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 4.9% (31 December 2022: 2.7%).

As at 30 June 2023, interest-bearing borrowings of RMB2,676,010,000 (31 December 2022: RMB1,954,000,000) were denominated in RMB, USD2,000,000 (31 December 2022: USD15,705,000) were denominated in USD, EUR74,075,000 (31 December 2022: EUR88,732,000) were denominated in EUR and HKD194,115,000 (31 December 2022: HKD194,115,000) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 2.53% to 7.73% (31 December 2022: 0.79% to 4.75%). Net cash generated from operating activities during the period was RMB153,695,000 (1H2022: net cash used in operating activities RMB206,752,000).

Management Discussion and Analysis

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2023, the Group's net decrease in property, plant and equipment amounted to RMB31,361,000 (1H2022: net increase of RMB23,813,000). The net decrease was mainly caused by the depreciation for the period. As at 30 June 2023, capital commitments were RMB596,311,000 (31 December 2022: RMB268,986,000), of which RMB51,506,000 (31 December 2022: RMB58,268,000) was contracted for and RMB544,805,000 (31 December 2022: RMB210,718,000) was authorised but not contracted for. The majority of capital commitments related to expansion of capacity for titanium alloy segment and upgrade of other production lines and will be funded by internal resources and operating cash flows of the Group.

RISK AND PREVENTION

Operating Exposure

In the first half of 2023, China experienced a year-on-year economic growth of 5.5%. Yet, the journey towards a complete economic recovery still requires a more robust intrinsic drive, and there is a need to bolster the confidence of private enterprises. Fortunately, the accelerated pace of innovation industries and green transformation will inject new impetus into China's economic development. Conversely, during the period under review, the external environment became more complex and challenging, as the global economic slowdown would constrain China's export growth. Following the mid-year meeting of the Politburo, the PRC government successively introduced measures such as the "20 Measures" to restore and boost consumption and the "28 Measures" to promote the development of the private economy. China Securities Regulatory Commission has also expressed its intention to comprehensively implement measures from the investment side and financing side to trading side to stimulate the vitality of the capital market. In the future, macroeconomic policies are expected to provide greater support and better unleash the potential of domestic demand to support stable economic growth.

As a renowned manufacturer of advanced basic materials such as HSS, DS, precision cutting tools, and key strategic materials such as titanium alloys, the Group has developed into a high-quality enterprise with global competitiveness as a leading international player in the tools steel industry. In response to the domestic reliance on imported high-end cutting tools, the Group has delved deep into powder metallurgy technology, breaking foreign technological monopolies, tapping into the high-end market, achieving import substitution, and enabling the localization of high-end cutting tools. While capturing the domestic market, we are expanding our market share in international industrial markets, automotive industries, and precision aerospace industries. In recent years, we have also been committed to promoting vertical integration transformation and continuously consolidating competitive barriers. The Group is confident to continue deepening the complete industrial chain of high-end precision cutting tools and fully benefit from the rapid development of domestic substitution and overseas demand.

Improving efficiency at lower costs represents a necessary strategy to address the current economic conditions. Faced with increasing competition and uncertainties in globalization, businesses need to continuously seek to maximize efficiency to strengthen their competitiveness. The Group, through the implementation of the second phase of "Digital Tiangong", is accelerating the digitization and informatization upgrade of production facilities, enhancing transparent production management, adopting technology to effectively cope with labor fluctuations, and implementing intelligent logistics, with overall production costs reduced. By strengthening our competitiveness, we will further control the risks associated with rising energy and global production costs.

Furthermore, sustainable development in the industry is crucial for steel enterprises. In recent years, the Group has invested heavily in green development in active response to the government's dual carbon goals. In line with the tightening requirements for sustainable development in China, the Group has spared no effort in areas such as emission reduction, energy conservation, environmental protection, and technological innovation, while adhering to practical actions to meet the expectations of the country and society for a greener lifestyle.

In the face of a complex and ever-changing business environment, the Group will continue to leverage clear and targeted strategies, our leading industry position, internationally advanced product technology, and excellent quality to actively respond to market challenges and lead the industry forward.

Management Discussion and Analysis

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for 47.7% (1H2022: 37.7%). 52.3% (1H2022: 62.3%) of the total sales and operating profit was subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a timely basis to minimise any significant financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 30 June 2023, the Group pledged certain bank deposits amounting to approximately RMB281,541,000 (31 December 2022: RMB140,041,000) and certain intercompany trade receivables amounting to RMB73,341,000 (31 December 2022: RMB145,131,000). Details are set out in the notes to the interim financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2023, the Group employed 3,548 employees (31 December 2022: 3,134). 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 2023 (31 December 2022: 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.

NO MATERIAL CHANGE

Save as disclosed in this report, information in relation to the Group's performance in the period from 1 January 2023 to 30 June 2023 (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 2022 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 2023 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 2022).

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

As at 30 June 2023, 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)	27.92
	Beneficial owner	6,800,000 (L)	0.24
			28.16
Mr. Zhu Zefeng ⁽²⁾⁽³⁾	Interests of controlled corporations	680,926,521 (L)	24.54
	Beneficial owner	1,500,000 (L)	0.05
			24.59
Mr. Wu Suojun	Beneficial owner	2,400,000 (L)	0.09
Mr. Jiang Guangqing	Beneficial owner	900,000 (L)	0.03

Notes:

As at 30 June 2023,

- (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.
- (2) Sky Greenfield Investment Limited held 636,994,521 ordinary shares. Sky Greenfield Investment Limited was held as to 100% by Zhu Zefeng.
- (3) Silver Power (HK) Limited, which was wholly owned by Sky Greenfield Investment Limited, held 43,932,000 ordinary shares.
- (L) Represents long position.

Report of the Directors

(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
Mr. Zhu Zefeng	Sky Greenfield Investment Limited	Beneficial owner	1 (L) ⁽³⁾	100.00
Mr. Zhu Zefeng	Silver Power (HK) Limited	Beneficial owner	1 (L) ⁽⁴⁾	100.00
Mr. Wu Suojun	TG Tech	Beneficial owner	1,432,195 (L) ⁽⁵⁾	0.24

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.
- (3) Mr. Zhu Zefeng held 1 share in Sky Greenfield Investment Limited.
- (4) Sky Greenfield Investment Limited held 1 share in Silver Power (HK) Limited.
- (5) Mr. Wu Suojun held 1,432,195 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2023, 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)	28.16
THCL ⁽¹⁾	Beneficial owner	774,758,000 (L)	27.92
Niu Qiu Ping	Spousal interest ⁽⁵⁾	682,426,521 (L)	24.59
Sky Greenfield Investment Limited	Beneficial owner ⁽³⁾ Interests of controlled corporations ⁽⁴⁾	636,994,521 (L) 43,932,000 (L)	22.96 1.58
			24.54

(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. For information in relation to shares of the Company held by Mr. Zhu Zefeng, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".

Report of the Directors

(b) Interests in the shares of associated corporation

Substantial shareholder's name	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Ms. Yu Yumei	THCL	Beneficial owner	5,489 (L)	10.98
		Spousal interest ⁽¹⁾	44,511 (L)	89.02
Ms. Yu Yumei	TG Tech	Spousal interest ⁽¹⁾	14,483,951 (L)	2.47
Ms. Niu Qiu Ping	Sky Greenfield Investment Limited	Spousal interest ⁽²⁾	1(L)	100.00
Ms. Niu Qiu Ping	Silver Power (HK) Limited	Spousal interest ⁽²⁾	1(L)	100.00

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".
- (2) Ms. Niu Qiu Ping is the spouse of Mr. Zhu Zefeng and is deemed to be interested in the shares of the associated corporations of the Company held by Mr. Zhu Zefeng. For information in relation to shares of associated corporations of the Company held by Mr. Zhu Zefeng, 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 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 options 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 2023 and therefore, there were no outstanding share options during the six months ended 30 June 2023.

As at 1 January 2023 and 30 June 2023, the number of share options available for grant under the Share Option Scheme was both 162,009,000.

During the six months ended 30 June 2023, the Company did not have any share award scheme in place.

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 HKD1.76 to HKD3.70.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2023, the Company repurchased 10,000,000 shares in total, at an aggregate consideration of HKD22,728,772 (equivalent to approximately RMB20,208,000) on The Stock Exchange of Hong Kong Limited. The shares repurchased were cancelled on 24 May 2023. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per ordinary shares		Aggregate consideration paid (HKD)
		Highest (HKD)	Lowest (HKD)	
April 2023	1,434,000	2.38	2.28	3,352,082
May 2023	8,566,000	2.49	2.14	19,376,690
Total	10,000,000			22,728,772

Save as disclosed, during the six months ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Report of the Directors

CORPORATE GOVERNANCE

During the six months ended 30 June 2023, 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.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 24 August 2023 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 2023 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 was appointed as an independent non-executive director of Luen Thai Holdings Limited (0311.HK) on 25 May 2023.

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 6 July 2023, 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 HKD111,000,000

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 52.76% 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

25 August 2023

Independent Review Report



Review report to the board of directors of Tiangong International Company Limited

for the six months ended 30 June 2023

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 26 to 54 which comprises the consolidated statement of financial position of Tiangong International Company Limited (“the Company”) as at 30 June 2023 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 months 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 2023 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

25 August 2023

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2023 (unaudited)

	Note	Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Revenue	3	2,496,411	2,670,160
Cost of sales		(1,926,849)	(2,014,959)
Gross profit		569,562	655,201
Other income	4	101,969	73,168
Distribution expenses		(57,238)	(123,095)
Administrative expenses		(73,409)	(64,922)
Research and development expenses		(164,091)	(138,217)
Other expenses	5	(32,959)	(20,633)
Profit from operations		343,834	381,502
Finance income		23,460	22,960
Finance expenses		(105,241)	(86,588)
Net finance costs	6(a)	(81,781)	(63,628)
Share of profits less losses of associates		8,048	11,506
Share of profits less losses of joint ventures		(3,314)	(90)
Profit before income tax	6	266,787	329,290
Income tax	7	(24,449)	(26,965)
Profit for the period		242,338	302,325
Attributable to:			
Equity shareholders of the Company		218,700	295,198
Non-controlling interests		23,638	7,127
Profit for the period		242,338	302,325
Earnings per share (RMB)	8		
Basic and diluted		0.079	0.106

The notes on pages 33 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 19(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2023 (unaudited)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Profit for the period	242,338	302,325
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)	1,457	13,584
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 (inclusive of nil tax (2022: nil))	(23,583)	(41,360)
Other comprehensive income for the period	(22,126)	(27,776)
Total comprehensive income for the period	220,212	274,549
Attributable to:		
Equity shareholders of the Company	196,552	267,314
Non-controlling interests	23,660	7,235
Total comprehensive income for the period	220,212	274,549

The notes on pages 33 to 54 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2023 (unaudited)

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment	9	4,576,235	4,607,596
Lease prepayments		251,912	233,842
Intangible assets		62,160	65,333
Goodwill		144,600	144,600
Interest in associates		103,115	95,473
Interest in joint ventures		40,928	47,669
Other financial assets	10	196,918	189,694
Deferred tax assets		51,586	60,007
		5,427,454	5,444,214
Current assets			
Financial assets measured at fair value through profit or loss (FVPL)		1,024	1,041
Inventories	11	2,725,573	2,583,470
Trade and other receivables	12	3,098,060	2,632,708
Pledged deposits	13	281,541	140,041
Time deposits	14	1,570,275	1,341,834
Cash and cash equivalents	15	1,245,984	1,219,843
		8,922,457	7,918,937
Current liabilities			
Interest-bearing borrowings	16	2,704,018	1,866,813
Trade and other payables	17	2,001,684	1,659,779
Other financial liability	18	1,552,950	1,524,650
Current taxation		40,358	28,240
		6,299,010	5,079,482
Net current assets		2,623,447	2,839,455
Total assets less current liabilities		8,050,901	8,283,669
Non-current liabilities			
Interest-bearing borrowings	16	748,900	1,028,500
Deferred income		38,642	42,530
Deferred tax liabilities		58,194	71,306
		845,736	1,142,336
NET ASSETS		7,205,165	7,141,333

The notes on pages 33 to 54 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2023 (unaudited)

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
CAPITAL AND RESERVES			
Share capital	19	49,055	49,231
Reserves		6,862,060	6,811,053
Total equity attributable to equity shareholders of the Company		6,911,115	6,860,284
Non-controlling interests		294,050	281,049
TOTAL EQUITY		7,205,165	7,141,333

Approved and authorised for issue by the board of directors on 25 August 2023.

Zhu Xiaokun
Directors

Zhu Zefeng
Directors

The notes on pages 33 to 54 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2023 (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 (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 and 1 July 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	
Changes in equity for the six months ended 31 December 2022												
Profit for the period	-	-	-	-	-	-	-	-	208,337	13,448	221,785	
Other comprehensive income	-	-	-	-	-	(16,578)	(36,376)	-	-	9	(52,945)	
Total comprehensive income	-	-	-	-	-	(16,578)	(36,376)	-	208,337	13,457	168,840	
Dividends of a subsidiary	-	-	-	-	-	-	-	-	-	(15,234)	(15,234)	
Transfer to reserve	-	-	-	-	-	-	-	73,311	(73,311)	-	-	
Capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	14,417	14,417	
Balance at 31 December 2022	49,231	2,727,820	732	60,313	91,925	(121,942)	45,354	1,003,872	3,002,979	281,049	7,141,333	

The notes on pages 33 to 54 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2023 (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 (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 2023	49,231	2,727,820	732	60,313	91,925	(121,942)	45,354	1,003,872	3,002,979	281,049	7,141,333
Changes in equity for the six months ended 30 June 2023											
Profit for the period	-	-	-	-	-	-	-	-	218,700	23,638	242,338
Other comprehensive income	-	-	-	-	-	(23,595)	1,447	-	-	22	(22,126)
Total comprehensive income	-	-	-	-	-	(23,595)	1,447	-	218,700	23,660	220,212
Dividends approved in respect of the previous year	19(a)	-	-	-	-	-	-	-	(100,455)	-	(100,455)
Acquisition of non-controlling interests		-	-	(25,058)	-	-	-	-	-	(10,659)	(35,717)
Repurchase of own shares	19(b)	(176)	(20,208)	176	-	-	-	-	-	-	(20,208)
Balance at 30 June 2023	49,055	2,707,612	908	35,255	91,925	(145,537)	46,801	1,003,872	3,121,224	294,050	7,205,165

The notes on pages 33 to 54 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2023 (unaudited)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Operating activities		
Cash generated from/(used in) operations	182,238	(146,991)
Tax paid	(28,543)	(59,761)
Net cash generated from/(used in) operating activities	153,695	(206,752)
Investing activities		
Payments for the purchase of property, plant and equipment and lease prepayments	(180,557)	(188,583)
(Payment)/proceeds from time and pledged deposits, net	(369,941)	215,091
Payment for purchase of wealth management products	–	(100,000)
Interests received	23,460	22,963
Other cash flows used in investing activities	–	(49,749)
Net cash used in investing activities	(527,038)	(100,278)
Financing activities		
Proceeds from new interest-bearing borrowings	1,958,226	1,903,035
Repayments of interest-bearing borrowings	(1,438,453)	(1,772,839)
Capital contribution from non-controlling shareholders	–	5,209
Payments for repurchase of shares	(20,208)	(26,018)
Interest paid	(78,946)	(58,981)
Payment for acquisition of non-controlling interests	(35,717)	(7,558)
Net cash generated from financing activities	384,902	42,848
Net increase/(decrease) in cash and cash equivalents	11,559	(264,182)
Cash and cash equivalents at 1 January	1,219,843	1,356,881
Effect of foreign exchange rates changes	14,582	5,735
Cash and cash equivalents at 30 June	1,245,984	1,098,434

The notes on pages 33 to 54 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 25 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 2022 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 2022 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.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following new and amended IFRSs that are first effective for the current accounting period of the Group:

- IFRS 17, *Insurance contracts*
- Amendments to IFRS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IFRS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IFRS 12, *Income taxes: International tax reform — Pillar Two model rules*

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism.

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. 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, 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	
	2023	2022
	RMB’000	RMB’000
DS	1,145,497	1,384,435
HSS	381,901	532,480
Cutting tools	447,497	418,414
Titanium alloy	461,239	164,459
Others	60,277	170,372
	2,496,411	2,670,160

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).

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(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:

—	<i>DS</i>	The DS segment manufactures and sells materials that are used in the die set manufacturing industry.
—	<i>HSS</i>	The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.
—	<i>Cutting tools</i>	The cutting tools segment manufactures and sells HSS and carbide cutting tools to the tooling industry.
—	<i>Titanium alloy</i>	The titanium alloy segment manufactures and sells titanium alloys to the titanium industry.
—	<i>Others</i>	Others segment assembles and sells power tools.

(i) Segment results, assets and liabilities

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

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

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

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

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

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

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

	Six months ended 30 June 2023					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	1,145,497	381,901	447,497	461,239	60,277	2,496,411
Inter-segment revenue	-	130,150	-	-	-	130,150
Reportable segment revenue	1,145,497	512,051	447,497	461,239	60,277	2,626,561
Reportable segment profit (adjusted EBIT)	61,971	44,472	81,461	100,356	13,973	302,233

	As at 30 June 2023					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets	5,306,137	2,669,203	1,693,112	953,742	198,679	10,820,873
Reportable segment liabilities	928,632	368,487	173,720	404,699	48,305	1,923,843

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

	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

	As at 31 December 2022					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets	5,189,444	2,668,476	1,696,313	596,843	82,780	10,233,856
Reportable segment liabilities	1,008,396	338,051	170,535	137,066	16,353	1,670,401

Notes to the Unaudited Interim Financial Report

(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	
	2023 RMB'000	2022 RMB'000
Reportable segment revenue	2,626,561	2,831,562
Elimination of inter-segment revenue	(130,150)	(161,402)
Consolidated revenue	2,496,411	2,670,160

Profit	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Reportable segment profit	302,233	395,974
Net finance costs	(81,781)	(63,628)
Share of profits less losses of associates	8,048	11,506
Share of profits less losses of joint ventures	(3,314)	(90)
Other unallocated head office and corporate profits/(expenses)	41,601	(14,472)
Consolidated profit before income tax	266,787	329,290

Assets	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
	Reportable segment assets	10,820,873
Interest in associates	103,115	95,473
Interest in joint ventures	40,928	47,669
Other financial assets	196,918	189,694
Deferred tax assets	51,586	60,007
Financial assets at fair value through profit or loss	1,024	1,041
Pledged deposits	281,541	140,041
Time deposits	1,570,275	1,341,834
Cash and cash equivalents	1,245,984	1,219,843
Other unallocated head office and corporate assets	37,667	33,693
Consolidated total assets	14,349,911	13,363,151

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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	At
	30 June 2023 RMB'000	31 December 2022 RMB'000
Reportable segment liabilities	1,923,843	1,670,401
Interest-bearing borrowings	3,452,918	2,895,313
Current taxation	40,358	28,240
Deferred tax liabilities	58,194	71,306
Other financial liability	1,552,950	1,524,650
Other unallocated head office and corporate liabilities	116,483	31,908
Consolidated total liabilities	7,144,746	6,221,818

(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	
	2023 RMB'000	2022 RMB'000
The PRC	1,191,457	1,006,048
North America	482,558	602,355
Europe	553,511	796,789
Asia (other than the PRC)	255,878	237,049
Others	13,007	27,919
Total	2,496,411	2,670,160

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4 OTHER INCOME

	Note	Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Government grants	(i)	18,728	21,065
Net foreign exchange gains		66,631	39,457
Dividends income		5,149	7,097
Unrealised fair value changes of other financial assets		5,435	–
Net income on sales of scrap materials		4,583	1,956
Net gains on disposal of property, plant and equipment		–	633
Realised and unrealised gains on structured deposits and wealth management products		–	2,004
Others		1,443	956
		101,969	73,168

- (i) The subsidiaries of the Group located in the PRC, 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”), collectively received unconditional grants amounting to RMB14,840,000 (six months ended 30 June 2022: RMB17,177,000) from the local government. The Group also recognised amortisation of government grants related to assets of RMB3,888,000 (six months ended 30 June 2022: RMB3,888,000) during the six months ended 30 June 2023.

5 OTHER EXPENSES

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Provision for loss allowance on trade and other receivables	27,456	19,170
Charitable donations	2,873	800
Net realised and unrealised losses on trading securities	17	655
Others	2,613	8
	32,959	20,633

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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	
		2023 RMB'000	2022 RMB'000
Interest income		(23,460)	(22,960)
Finance income		(23,460)	(22,960)
Interest on bank loans		76,941	58,288
Interest arising on other financial liability	18	28,300	28,300
Finance expenses		105,241	86,588
Net finance costs		81,781	63,628

(b) Other items

	Note	Six months ended 30 June	
		2023 RMB'000	2022 RMB'000
Cost of inventories*		1,926,849	2,014,959
Amortisation of intangible assets		3,589	950
Depreciation of property, plant and equipment		183,287	162,693
Amortisation of lease prepayments (right-of-use assets)		2,902	1,995
Provision for write-down of inventories	11	10,999	24,675

* 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.

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7 INCOME TAX

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Current tax		
Provision for PRC Income Tax	29,175	20,920
Provision for Hong Kong Profits Tax	147	20,749
Provision for Thailand Corporate Income Tax	149	366
	29,471	42,035
Deferred tax		
Origination and reversal of temporary differences	(5,022)	(15,070)
	24,449	26,965

(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, Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools"), TG Tech and Weijian Tools are subject to a preferential income tax rate of 15% for the six months ended 30 June 2023 available to enterprises which qualify as a High and New Technology Enterprise (six months ended 30 June 2022: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% for the six months ended 30 June 2023 (six months ended 30 June 2022: 25%).

(c) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong are liable to Hong Kong Profits Tax at a rate of 16.5% for the six months ended 30 June 2023 (six months ended 30 June 2022: 16.5%).

(d) According to the policy of Industrial Promotion Act of Thailand, Tiangong Precision Tools (Thailand) Company Limited ("TGPT"), a subsidiary of the Group located in Thailand, is entitled to a preferential income tax rate of 0% for six years from May 2021, and 20% from May 2027 and thereafter.

Pursuant to the income tax rules and regulations of Thailand, Tiangong Special Steel Company Limited ("TGSS"), a subsidiary of the Group in Thailand are liable to Thailand Corporate Income Tax at a rate of 20% for the six months ended 30 June 2023 (six months ended 30 June 2022: 20%).

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 RMB218,700,000 (six months ended 30 June 2022: RMB295,198,000) and the weighted average of 2,782,365,956 ordinary shares in issue during the interim period (six months ended 30 June 2022: 2,790,376,078).

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(Expressed in Renminbi unless otherwise indicated)

8 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2023 and 2022 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 2023, the Group acquired items of property, plant and equipment at a cost of RMB159,288,000 (six months ended 30 June 2022: RMB188,582,000). There were no material disposals of property, plant and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)			
— Listed in the PRC	(i)	106,813	105,024
— Unlisted equity securities	(ii)	120	120
Financial assets measured at fair value through profit or loss (FVPL)			
— Unlisted units in investment fund	(iii)	89,985	84,550
		196,918	189,694

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 ("SSE") 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 RMB2,975,000 were received from these investments during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB6,820,000).
- (ii) The unlisted equity security is equity interest in Nanjing Xiaomuma Technology Co., Ltd., a company incorporated in the PRC. The Group designated the investment at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends were received from these investments during the six months ended 30 June 2023 (six months ended 30 June 2022: nil).
- (iii) The unlisted units in investment fund are interests in Xiamen Chuangfeng Yizhi Investment Management Partnership, Jinan Financial Fosun Weishi Equity Investment Fund Partnership, Ningbo Meishan Free Trade Port Qian Equity Investment Partnership (Limited Partnership), CICC Jiatai Private Equity Fund III (Shenzhen) Partnership (Limited Partnership) and Danyang Boyun Hengda Tiangong Industrial Investment Center (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 RMB2,174,000 were received from these investments during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB277,000).

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11 INVENTORIES

During the six months ended 30 June 2023, the Group recognised a write-down of RMB10,999,000 (six months ended 30 June 2022: RMB24,675,000) 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.

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Trade receivables	2,044,753	1,697,853
Bills receivable	741,749	699,453
Less: loss allowance	(139,970)	(111,645)
Net trade and bills receivable	2,646,532	2,285,661
Prepayments	248,306	223,327
Non-trade receivables	210,876	132,243
Less: loss allowance	(7,654)	(8,523)
Net prepayments and non-trade receivables	451,528	347,047
	3,098,060	2,632,708

As at 30 June 2023, certain intercompany trade receivables of RMB73,341,000 (2022: RMB145,131,000) has been pledged to a bank as security for the Group's bank loans.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

12 TRADE AND OTHER RECEIVABLES (continued)

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	2,426,755	2,141,305
1 to 2 years	196,022	113,999
Over 2 years	23,755	30,357
	2,646,532	2,285,661

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

13 PLEDGED DEPOSITS

As at 30 June 2023, bank deposits of RMB281,541,000 (2022: RMB140,041,000) have been pledged to banks as security for bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

14 TIME DEPOSITS

As at 30 June 2023, time deposits of RMB1,570,275,000 (2022: RMB1,341,834,000) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

15 CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 30 June 2023 are cash at bank and on hand.

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Cash at bank and on hand	1,245,984	1,219,843

As of the end of the reporting period, cash and cash equivalents situated in Chinese Mainland amounted to RMB642,734,000 (2022: RMB654,161,000). Remittance of funds out of Chinese Mainland is subject to relevant rules and regulations of foreign exchange control.

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16 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Current			
Secured bank loans	(i)	129,893	130,485
Unsecured bank loans	(ii)	1,302,025	1,010,828
Current portion of non-current unsecured bank loans		1,272,100	725,500
		2,704,018	1,866,813
Non-current			
Unsecured bank loans	(iii)	2,021,000	1,754,000
Less: Current portion of non-current unsecured bank loans		(1,272,100)	(725,500)
		748,900	1,028,500
		3,452,918	2,895,313

Notes:

- (i) Current secured bank loan is secured by certain trade receivables at annual interest rates ranging at 3.28% (2022: 0.79% to 2.84%) per annum.
- (ii) Current unsecured bank loans carry interest at annual rates ranging from 2.75% to 3.95% (2022: 0.90% to 4.35%) per annum.
- (iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.75% to 4.75% (2022: 2.70% 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 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	1,272,100	725,500
Over 1 year but within 2 years	523,300	774,500
Over 2 years but less than 5 years	225,600	254,000
	2,021,000	1,754,000

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16 INTEREST-BEARING BORROWINGS (continued)

As at 30 June 2023, the Group's banking facility with banks are subject to the fulfilment of a covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. 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.

As at 30 June 2023, subsidiaries of the Group: (1) TG Aihe issued guarantees to TG Tools in respect of bank loans granted to TG Tools, of RMB995,000,000 (31 December 2022: RMB640,000,000); (2) TG Tools issued guarantees to TG Aihe and Tiangong Development Hong Kong Company Limited ("TG Development") in respect of bank loans granted to TG Aihe and TG Development, of RMB200,000,000 (31 December 2022: RMB220,000,000); (3) Jiangsu Tiangong New Materials Company Limited has issued a guarantee to Precision Tools in respect of bank loans granted to Precision Tools, of RMB100,000,000 (31 December 2022: RMB250,000,000).

17 TRADE AND OTHER PAYABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Trade and bills payable	1,591,061	1,272,129
Contract liabilities	39,542	23,476
Dividends payable	100,455	–
Other payables and accrued expenses	270,626	364,174
	2,001,684	1,659,779

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	1,537,838	1,233,172
1 to 2 years	38,541	28,428
Over 2 years	14,682	10,529
	1,591,061	1,272,129

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18 OTHER FINANCIAL LIABILITY

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Contingent redeemable capital contributions in a subsidiary	1,552,950	1,524,650

On 28 December 2020, certain third party investors (the "Investors"), 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 and TG Development 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.

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:

	2023 RMB'000	2022 RMB'000
Dividends in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0362 per share (six months ended 30 June 2022: RMB0.0594 per share)	100,455	165,429

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 2022).

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19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Purchase of own shares

During the six months period ended 30 June 2023, 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
April/May 2023	10,000,000	2.14	2.49	22,729

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 HKD22,729,000 (equivalent to approximately RMB20,208,000). All the repurchased shares were cancelled during the six-month period ended 30 June 2023 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 RMB176,000 was transferred from share capital to the capital redemption reserve, and the balance of RMB20,208,000 reduced the share premium.

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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 2023	Fair value measurement at 30 June 2023 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SSE	77,923	77,923	–	–
— Listed equity securities — NEEQ	28,890	–	–	28,890
— Unlisted equity securities	120	–	–	120
— Unlisted units in investment funds	89,985	–	–	89,985
Financial assets at fair value through profit or loss:				
— Listed equity securities	1,024	1,024	–	–
Trade and other receivables:				
— Bills receivable	117,822	–	–	117,822

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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 2022 RMB'000	Fair value measurement at 31 December 2022 categorised into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SSE	76,764	76,764	—	—
— Listed equity securities — NEEQ	28,260	—	—	28,260
— Unlisted equity securities	120	—	—	120
— Unlisted units in investment funds	84,550	—	—	84,550
Financial assets at fair value through profit or loss:				
— Listed equity securities	1,041	1,041	—	—
Trade and other receivables:				
— Bills receivable	87,409	—	87,409	—

During the six months ended 30 June 2023, 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) 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
Bills receivable	Discounted cash flow method (Note iii)	Risk-adjusted discount rate

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(Expressed in Renminbi unless otherwise indicated)

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

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

Notes:

- (i) Fair value of the equity securities listed on the NEEQ, which do not have quoted prices in active markets, and that of unlisted equity securities and unlisted units in investment funds mentioned in Note 10 is determined using the price/earning or price/book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

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 30 June 2023, 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 RMB1,182,000 (2022: 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 30 June 2023, 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 RMB3,281,000(2022: RMB2,855,000).

- (iii) 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.

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

	At 30 June 2023 RMB'000	At 30 June 2022 RMB'000
Unquoted equity securities and units in investment funds:		
At 1 January	112,930	123,920
Payment for purchase of other financial assets	–	24,000
Net unrealised gains recognised in other comprehensive income during the period	630	–
Unrealised fair value changes of other financial assets recognised in profit or loss during the period	5,435	–
At 30 June	118,995	147,920

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 2023 and 31 December 2022.

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21 COMMITMENTS

Capital commitments outstanding at 30 June 2023 not provided for in the interim financial report

	At 30 June 2023 RMB'000	At 3 1 December 2022 RMB'000
Contracted for acquisition of property, machinery and equipment	51,506	58,268
Authorised but not contracted for — acquisition of property, machinery and equipment	544,805	210,718
	596,311	268,986

22 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	
	2023 RMB'000	2022 RMB'000
Sales of goods to:		
Joint ventures	221,450	292,637
Associates	92,663	202,850
	314,113	495,487

(b) Amounts due from related parties

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Joint ventures	575,504	472,116
Associates	116,290	132,393
	691,794	604,509

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22 RELATED PARTY TRANSACTIONS (continued) (c) Amounts due to related parties

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Associates	–	775
	–	775