2023
ANNUAL REPORT

天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 826

* *For identification purposes only*

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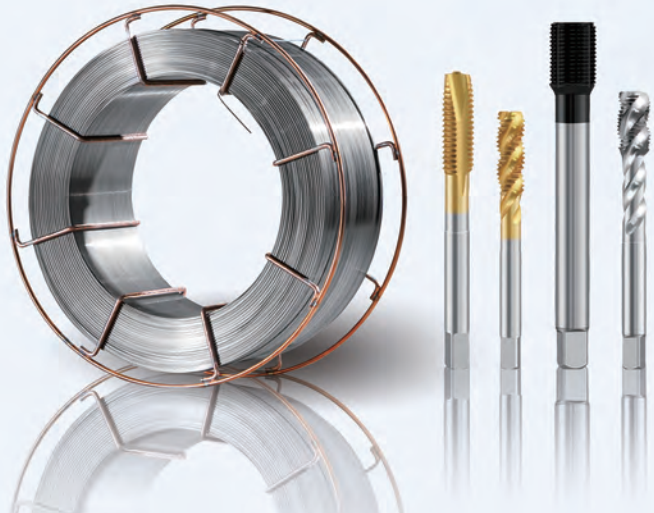
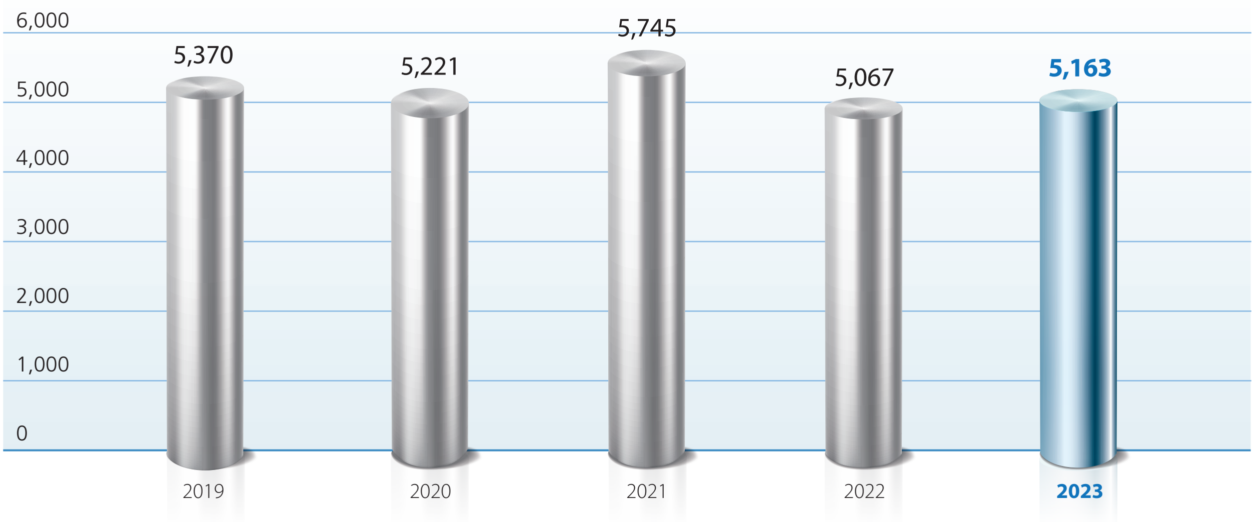


FINANCIAL HIGHLIGHTS

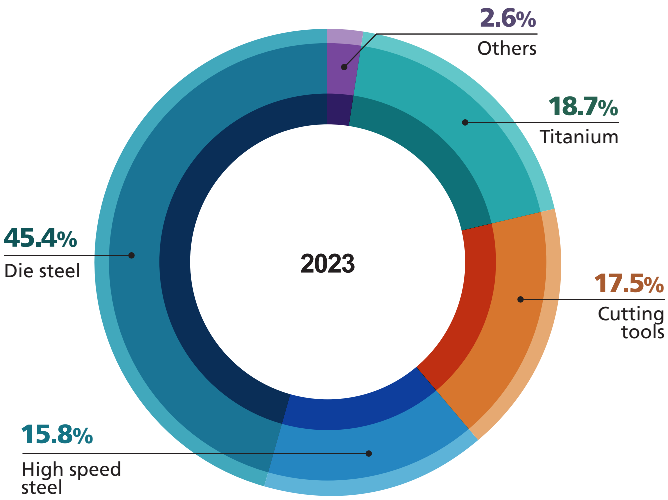
	2023	2022
Revenue (RMB'000)	**5,163,306**	5,066,807
Net profit for the year attributable to equity shareholders of the Company (RMB'000)	**370,209**	503,535
Basic earnings per share (RMB)	**0.133**	0.181
Proposed final dividend per share (RMB)	**0.0400**	0.0362

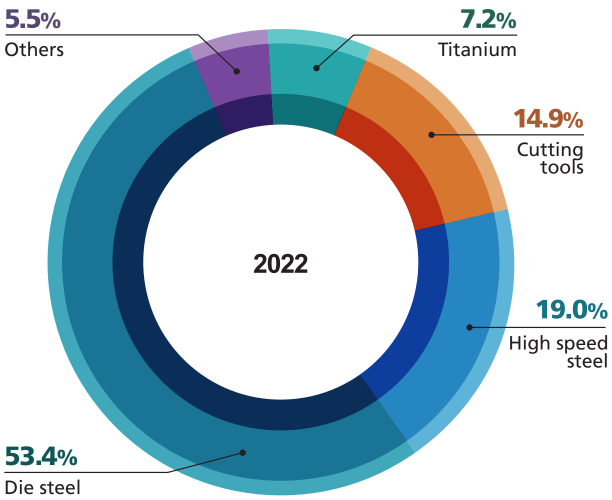
Revenue

RMB' million



Revenue by Product Mix





CHAIRMAN'S STATEMENT

In 2023, the global economy faced significant challenges, impacting trade and investment. The Group achieved solid performance amidst these conditions, with a focus on strategic growth and operational resilience, leading to revenue and operating profit increases. Moving into 2024, the Group aims to prioritize innovation, efficiency, and employee well-being, setting the stage for sustainable development and profitability.

Zhu Xiaokun
Chairman

Dear Shareholders,

On behalf of the board of directors (the "Board") of Tiangong International Company Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the audited annual results for the year ended 31 December 2023.

In 2023, the global macroeconomy faced unprecedented challenges. A series of complex factors is intertwined, affecting the direction of the world economy. During the year under review, the aggressive interest rate hike policies of major economies troubled international economic activities. This situation was exacerbated by a variety of factors, including the continued long-term impact of public health events, intensified geopolitical conflicts, and shifts in the monetary policies of major economies around the world. As a result, international trade and investment activity has been significantly challenged.

In terms of the domestic market, although Chinese government has made positive policy adjustments, the speed and intensity of domestic economic recovery still faced many uncertainties due to the global economic slowdown. Particularly in the first half of the year, the momentum of economic growth weakened, putting business and consumer confidence to the test. However, the domestic economy bottomed out in the third quarter and exhibited clear signs of recovery in the fourth quarter. The government effectively stabilized market expectations and laid a solid foundation for economic recovery through a series of policy measures, including interest rate cuts, reserve requirement ratio reductions, the issuance of trillions of special government bonds, and deficit ratio reductions.

In such an operating environment, the Group responded calmly and achieved solid performance, leveraging strategic wisdom and operational resilience. During the year under review, the Group's revenue increased to RMB5.16 billion, gross profit remained at RMB1.14 billion, and operating profit rose to RMB627 million year-on-year. However, due to rising interest rates, reduced income from associates and joint ventures, and increased income tax expenses, the net profit attributable to equity shareholders of the Company in 2023 decreased by 26.5% to RMB370 million compared with the previous year. Despite the challenging conditions, our innovative businesses performed exceptionally well, signaling that the Group is entering a new growth cycle.

For 2024, the Group will prioritize growth, quality, efficiency, brand building, environmental safety, and enhancing employee income. Our primary focus will be on improving yield rates, reducing costs, and developing new products as key growth strategies. We aim to ensure the continued growth of our economic indicators and management objectives through these efforts. Additionally, we will focus on increasing employee income. Plans include deepening salary reform for front-line production employees and gradually implementing a salary management model that bases salary on job vacancies, evaluates salary on skills, and increases salary based on output. This approach will motivate employees and enhance team productivity. In terms of innovation, we will boost efforts, encouraging all employees to engage in innovation activities and fostering a culture where innovation drives profit. Innovation remains the core of the Group's sustainable development. We are confident that our collective efforts will lead to new products and technologies that meet market demands. Accelerating the construction of 'Digital Tiangong' is another key objective. We will use data analytics to identify and solve problems, thereby improving management and efficiency. Moreover, we will enhance inventory and overseas payment management, optimize working capital use, and improve overall profitability quality.

Appreciation

Finally, I would like to take this opportunity to express my sincere gratitude to all fellow directors of the Board for their full support and important contributions to the Group in 2023. The Group overcame numerous challenges in 2023, achieved business and technological innovation, and continued to make progress amidst the complex operating environment. This success could not have been achieved without the persistence in our original intentions, due diligence, and the unremitting efforts of every team member. I wish to extend my heartfelt thanks to all shareholders, customers, suppliers, and business partners for their long-term support and trust. The Group is committed to sustaining growth and transitioning into an innovative new materials industry enterprise, dedicated to fostering innovation to deliver sustainable long-term value and attractive returns to our shareholders.

Zhu Xiaokun
Chairman

25 March 2024

MANAGEMENT

DISCUSSION & ANALYSIS

Business Review

	For the year ended 31 December					
	2023		2022		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
DS	**2,345,986**	**45.4**	2,703,341	53.4	(357,355)	(13.2)
HSS	**815,904**	**15.8**	964,780	19.0	(148,876)	(15.4)
Cutting tools	**905,754**	**17.5**	756,726	14.9	149,028	19.7
Titanium alloy	**963,836**	**18.7**	362,420	7.2	601,416	165.9
Others	**131,826**	**2.6**	279,540	5.5	(147,714)	(52.8)
	5,163,306	**100.0**	5,066,807	100.0	96,499	1.9

DS — accounted for 45.4% of the Group's revenue in FY 2023

	For the year ended 31 December					
	2023		2022		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
DS						
Domestic	**868,040**	**37.0**	917,466	33.9	(49,426)	(5.4)
Export	**1,477,946**	**63.0**	1,785,875	66.1	(307,929)	(17.2)
	2,345,986	**100.0**	2,703,341	100.0	(357,355)	(13.2)

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

After the haze of the public health event dissipated, domestic economic growth slowed down in 2023 as a result of various downward pressures exerted on the marco-economy. The slowdown in economic growth led to a slowdown in the recovery of industries of machinery and equipment manufacturing, real estate and infrastructure. Capital investment declined significantly. Except for new energy vehicles, the recovery of most industries was below expectation, and downstream terminal customers and distributors were cautious in making purchase, and the overall demand for DS was weak. Domestic demand was gradually improved starting from the fourth quarter of 2023 and is expected to recover in an orderly manner.

Constrained by the weakened demand, the domestic revenue of the DS segment of the Group recorded a decrease of 5.4% to RMB868,040,000 (2022: RMB917,466,000).

In terms of exports, the export of industrial products was hindered in 2023 due to significant overseas economic recession. In addition, in the context of high inflation, European and American countries maintained high interest rates throughout the year. Overseas customers became more cautious in their capital investment projects, which further drove down the demand from downstream customers. Export revenue of DS segment recorded a decrease of 17.2% to RMB1,477,946,000 (2022: RMB1,785,875,000).

Overall, sales of the DS segment decreased by 13.2% to RMB2,345,986,000 (2022: RMB2,703,341,000).

HSS — accounted for 15.8% of the Group's revenue in FY 2023

	For the year ended 31 December					
	2023		2022		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
HSS						
Domestic	**384,336**	**47.1**	404,672	41.9	(20,336)	(5.0)
Export	**431,568**	**52.9**	560,108	58.1	(128,540)	(22.9)
	815,904	**100.0**	964,780	100.0	(148,876)	(15.4)

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

Similar to DS, macroeconomic downturn led to a decline in demand for industrial equipment and tools in the domestic terminal market. Despite this decline, the average selling price remained relatively stable primarily due to the addition of the powder metallurgy product family, which partially offset the impact of the decline in demand. The overall domestic revenue of HSS segment decreased by 5.0% to RMB384,336,000 (2022: RMB404,672,000).

In terms of export, demand declined due to the digestion of inventories in overseas downstream segments (see the description of the cutting tools segment for details) and the impact of the macroeconomic downturn. The overall export revenue of the HSS segment decreased by 22.9% to RMB431,568,000 (2022: RMB560,108,000).

Overall, sales of the HSS segment decreased by 15.4% to RMB815,904,000 (2022: RMB964,780,000).

Cutting tools — accounted for 17.5% of the Group's revenue in FY 2023

	For the year ended 31 December					
	2023		2022		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Cutting tools						
Domestic	**385,726**	**42.6**	272,521	36.0	113,205	41.5
Export	**520,028**	**57.4**	484,205	64.0	35,823	7.4
	905,754	**100.0**	756,726	100.0	149,028	19.7

Cutting tools segment includes HSS and carbide cutting tools. HSS cutting tools products are mainly twist drill bits and screw taps. All of these are used in industrial manufacturing and civil purposes. The two main types of HSS cutting tools manufactured by the Group are twist drill bits and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tools production brought us a significant cost advantage over our peers. High-end carbide tools manufactured by the Group mainly comprised of carbide inserts and solid tools.

Benefited from the adjustment of the Group's cutting tool product structure, especially the introduction of the powder metallurgy HSS cutting tools and carbide cutting tools (which are of higher average selling price), the average selling price increased significantly. Accordingly, the domestic revenue of the cutting tools segment increased by 41.5% to RMB385,726,000 (2022: RMB272,521,000).

Since overseas DIY cutting tools distributors were in the final phase of digesting the accumulated inventories, there was a decrease in purchase orders received from the overseas distributors. On the other hand, average selling price increased as a result of increase in the proportion of high-end products. The export revenue increased by 7.4% to RMB520,028,000 (2022: RMB484,205,000).

Overall, sales of the cutting tools segment increased by 19.7% to RMB905,754,000 (2022: RMB756,726,000).

Titanium alloy — accounted for 18.7% of the Group's revenue in FY 2023

	For the year ended 31 December					
	2023		2022		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Titanium alloy						
Domestic	**956,050**	**99.2**	356,983	98.5	599,067	167.8
Export	**7,786**	**0.8**	5,437	1.5	2,349	43.2
	963,836	**100.0**	362,420	100.0	601,416	165.9

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

The revenue generated by the titanium alloy segment in 2023 primarily derived from domestics sales. A substantial increase of 165.9% on total revenue to RMB963,836,000 (2022: RMB362,420,000) 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. The Group supplied frame materials for internationally renowned consumer electronics manufacturers. Both the sales volume and the average selling price of 2023 increased significantly after the transformation of product runway.

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.

Others — accounted for 2.6% of the Group's revenue in FY 2023

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

	For the year ended 31 December					
	2023		2022		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Export	**131,826**	**100.0**	279,540	100.0	(147,714)	(52.8)

Affected by the global macroeconomic downturn and overcapacity in motor and electrical appliance industries, the total revenue from others segment decreased by approximately 52.8% to RMB131,826,000 (2022: RMB279,540,000).

Financial Review

Net profit attributable to equity shareholders of the Company decreased by 26.5% from RMB503,535,000 in 2022 to RMB370,209,000 in 2023.

Revenue

Revenue of the Group for 2023 totalled RMB5,163,306,000, representing an increase of 1.9% when compared with RMB5,066,807,000 in 2022. Nevertheless, the recovery of the general manufacturing industry was below expectation, except for a few industries such as new energy vehicles and certain consumer electronics, downstream demand recovered slowly and gradually improved starting from the fourth quarter. New orders from consumer electronics industry for titanium alloys and recovery of domestic demand on high-end cutting tools became the main drivers of revenue in 2023. For an analysis of individual segments, please refer to the "Business Review" section.

Cost of sales

The Group's cost of sales was RMB4,019,922,000 in 2023, representing an increase of 2.6% as compared with RMB3,918,320,000 in 2022, as a result of the increase in revenue and depreciation of newly added manufacturing machinery in recent years.

Gross margin

In 2023, the overall gross margin was 22.1% (2022: 22.7%). Set out below are the gross margin of the five segments of the Group in 2023 and 2022:

	2023	2022
DS	**15.5%**	19.1%
HSS	**17.2%**	20.8%
Cutting tools	**29.1%**	27.5%
Titanium alloy	**31.6%**	28.5%
Others	**17.1%**	22.7%

DS

Weak demand resulted in an inefficient transmission of increasing costs caused by the price increase of 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 19.1% in 2022 to 15.5% in 2023.

HSS

As the production of DS and HSS both utilise similar rare metals as raw materials, a similar situation as DS was observed in HSS segment. The overall gross margin of HSS decreased from 20.8% in 2022 to 17.2% in 2023.

Cutting tools

Gross margin of cutting tools increased from 27.5% in 2022 to 29.1% in 2023. It was mainly caused by the increase in sales mix of high-end cutting tools products which are of higher profit margin.

Titanium alloy

Since the fourth quarter of 2022, the Group officially entered the consumer electronics market by providing titanium and titanium alloy wire to consumer electronic processor which is a key component in the production of consumer electronic products by internationally renowned manufacturers. The products supplied to the consumer electronics industry were of a higher standard and yielded a higher gross margin compared to those supplied to energy and chemical industry. The full year impact in 2023 led to a rise in the gross margin of titanium alloy from 28.5% in 2022 to 31.6% in 2023.

Others

Others segment concerns with 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 was depending on the demand from overseas market. As a result of various trade practices and elevated inflation rates in foreign countries, orders for power tool kits decreased. Consequently, the gross margin of the segment decreased from 22.7% in 2022 to 17.1% in 2023.

Other income

In 2022, USD appreciated significantly against RMB. The Group's net monetary assets denominated in USD, which mainly arise from the export business, resulted in a significant exchange gain in 2022. Comparing to 2022, the appreciation of USD against RMB in 2023 was smaller than that of 2022 and lower exchange gain was recorded. On the other hand, more local government subsidies was received in 2023 than in 2022. Offsetting the above impact, other income decreased from RMB157,895,000 in 2022 to RMB127,253,000 in 2023.

Distribution costs

Distribution costs in 2023 was RMB118,053,000 (2022: RMB219,776,000). Export revenue decreased by 17.5% from RMB3,115,165,000 in 2022 to RMB2,569,154,000 in 2023. In addition to the decline in export revenue, shipping costs decreased due to the global economic downturn. Both led to a decrease in freight and related logistic expenses. In 2023, distribution costs amounted to approximately 2.3% of revenue (2022: 4.3%).

Administrative expenses

Administrative expenses increased from RMB146,666,000 in 2022 to RMB160,122,000 in 2023. The increase was mainly due to the professional fee incurred for due diligence on a potential acquisition and carbon border adjustment mechanism (CBAM) consultation, increase in average salaries expenses and business development expenses. In 2023, administrative expenses amounted to approximately 3.1% of revenue (2022: 2.9%).

Research and development expenses

The number of research and development projects in progress increased in 2023. As these projects were related to high alloy composition products which required more material and labour cost, the research and development expenses increased from RMB288,456,000 in 2022 to RMB312,361,000 in 2023.

Other operating expenses

Other operating expenses increased from RMB31,947,000 in 2022 to RMB53,482,000 in 2023.

Additional impairment provision of approximately RMB48,487,000 was provided according to the credit loss estimation policy of the Group.

Net finance costs

The Group's net finance costs increased from RMB129,895,000 in 2022 to RMB156,963,000 in 2023 as a result of higher average interest rate in 2023.

Income tax

As set out in Note 9 to the consolidated statement of profit or loss, the Group's income tax expense increased from credited RMB4,750,000 in 2022 to RMB45,542,000 in 2023. It was because there were non-recurring events occurred exclusively in 2022, like tax reductions for fixed assets purchase by high-tech enterprises and reversal of excessive withholding tax on dividend, etc.. As a result, a tax credit incurred in 2022 while effective tax rate returned to a normal range in 2023.

Profit for the year attributable to equity shareholders of the Company

As a result of the factors set out above, the Group's share of profit decreased by 26.5% from RMB503,535,000 in 2022 to 370,209,000 in 2023. The margin of profit attributable to equity shareholders of the Company decreased from 9.9% in 2022 to 7.2% in 2023.

Total comprehensive income for the year attributable to equity shareholders of the Company

In 2023, total comprehensive income for the year attributable to equity shareholders of the Company was RMB349,996,000 (2022: RMB422,697,000) after taking into account foreign currency translation differences and fair value adjustments on equity investments.

During the year, the Group credited to other comprehensive income a foreign currency translation difference of RMB12,962,000 (2022: credited RMB57,915,000) related to translation of financial statements of Hong Kong subsidiaries and overseas equity accounted investees.

The Group also recognised a fair value loss in the consolidated statement of profit or loss and other comprehensive income of RMB7,328,000 (2022: loss of RMB22,806,000) on its equity investments.

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), 丹陽博雲恒大天工產業投資中心(有限合夥)(Danyang Boyun Hengda Tiangong Industrial Investment Center (Limited Partnership)*) and 蘇州毅鳴新材料創業投資合夥企業(有限合夥) (Suzhou Yiming New Materials Venture Capital Partnership Enterprise (Limited Partnership)*). All of these investments were stated at their fair value as at 31 December 2023. Other than the fair value loss, net of tax, of RMB7,328,000 (2022: loss of RMB22,806,000) recorded in the other comprehensive income in 2023, the fair value loss of RMB4,420,000 was recorded in other operating expenses (2022: gain of RMB4,910,000 in other income) for financial assets measured at fair value through profit or loss during the year.

Trade and bills receivable

Trade and bills receivable increased from RMB2,285,661,000 in 2022 to RMB2,915,486,000 in 2023. This was mainly because titanium alloy segment generated a higher monthly sales throughout the year, resulting in an increase in the average receivable balance of the segment; and the businesses of DS, HSS and cutting tools segments were gradually improved in the fourth quarter, increasing the receivable balance at the end of the year.

Loss allowance of RMB149,555,000 (2022: RMB111,645,000) accounted for 4.9% (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.

Industry Review

In 2023, China gradually weathered through the public health event, and economic activities returned to normalcy. As national policies aimed at expanding domestic demand and promoting consumption continued to bear fruits, the service sector and consumption saw a sign of gradual recovery, while emerging industries and new dynamics continued with their rapid growth. As a result, the latter ones became the major drivers to spur economic growth. The gross domestic product (GDP) throughout the year recorded RMB126 trillion at an annual growth of 5.2%.

As the supply-side stabilization has also become a key component of national policy, the Ministry of Industry and Information Technology has since the fourth quarter of 2023 focused on 10 key large-scale industries featuring strong drivers, including high-end manufacturing, new energy, and information technology, and therefore has formulated and implemented the 輕工業穩增長工作方案(2023–2024年) "Steady Growth Work Plan for Light Industry (2023–2024)", providing the policy support for the growth of industrial production in 2024. This move is expected to promote the optimization and upgrading of the domestic industrial structure, improve the stability and competitiveness of the industry chain and supply chain, and also help increase the growth rate of the domestic industrial added value.

In terms of overseas markets, in the wake of various pressures, including intensified geopolitical conflicts, persistently high inflation, and rising interest rate, the global economy found it difficult to move forward against a number of challenges in 2023. As suggested in the reports published by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), the global economic growth has decelerated, indicating the complexity of global economic restructuring and recovery paths. Despite the uncertain economic conditions lingering in the US and Europe, the US succeeded in reducing its inflation rate. Nonetheless, the environment of high interest rate and high debt level projected a worrying economic outlook. Likewise, the European economy continued to see weak recovery momentum as affected by shrinking global demand, tighter financing conditions, and energy supply issues.

As restricted by the aforementioned challenges, international trade did not perform as well as expected, and uncertainties looming over trade were further intensified by the Russia-Ukraine conflict and China-US trade frictions. In terms of monetary policies, the central banks in various countries adopted tightening measures, such as interest rate hikes which significantly increase the financing costs for corporates. In line with rising trade protectionism, certain countries adopt stricter trade protection measures including higher tariffs and import restrictions, undermining the liberalization and facilitation of international trade. In 2023, with extreme weather events and labor shortages, disruptions of the supply chain was further exacerbated, affecting the stability and efficiency of international trade.

Market Review

In 2023, China became the world's largest automobile exporter for the first time, as a result of the significant growth in both automobile production and sales, as well as a substantial increase in auto exports. According to the China Association of Automobile Manufacturers, in 2023, China's automobile production and sales reached 30.161 million and 30.094 million vehicles, respectively, representing an increase of 11.6% and 12.0% from 2022, and setting a new record high by surpassing the mark of 30 million vehicles. As a result, China has for the 15th consecutive year maintained its position as the global leader in automobile production. According to the statistics from the General Administration of Customs of China, the total automobile export for 2023 reached 5.22 million vehicles, representing an increase of 57.4% from 2022. This marked China's ascent to becoming the largest automobile exporter globally for the first time. These data not only highlight the strong performance of China's automobile industry in 2023 but also attest to the rapid development and successful implementation of globalization strategies in the Chinese auto industry, both of which positively drive the demand for tools steel.

Cutting tools are the main application market for HSS and certain alloy steel. During the year, in line with a slight rebound in the manufacturing industry in the fourth quarter, China's machine tool industry began to see a gradual recovery in the demand for equipment purchases, with some metal cutting machine tools performing well in response to demands in energy, automotive, and other sectors. The global Manufacturing Purchasing Managers' Index (PMI) average for 2023 was 48.5%, representing a decline of 3.3 percentage points from 2022, with operations below 50.0% for each month throughout the year, which indicates the growth momentum of global economy is still in recovery. In terms of exports, Chinese customs data showed a particularly strong performance in the growth of export of metal processing machine tools in 2023, with an annual increase of 1.2% to US$20.9 billion, especially against the backdrop of overall declining global market demand, highlighting the competitiveness of Chinese manufacturing industry in the international market. Conversely, the annual PMI average for China's manufacturing industry in 2023 was 49.9%, indicating that domestic market demand has not fully recovered. Despite these challenges, the production output and production amount of metal processing machine tools continued to grow slightly. According to the statistics from the National Bureau of Statistics regarding enterprises above designated size, the production output of metal processing machine tool in 2023 reached 764,000 units, representing an increase of 1.6% from 2022; the production amount was RMB193.5 billion, representing an increase of 1.1% from 2022.

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 with 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. Currently, the CNC rate of machine tools in China is approximately 44.9%, which is notably lower than the average CNC rate of over 70.0% in developed countries, indicating that there is still significant potential for the development of CNC machine tool market.

The titanium alloy market, which benefits from the industry upgrade and technological advancements in the global market, also embraces a period of rapid development and transition. The large-scale production process of spongy titanium and the large-scale related equipment in the global market have reached maturity. Especially after years of research, trial, industrialization, and application and promotion, China, as a major titanium powerhouse, has fostered a complete titanium processing system from titanium mining to spongy titanium preparation and titanium materials processing. This mature system has not only promoted the rapid increase in the production output of spongy titanium, with a year-on-year increase of 25.0% for domestic production in 2022 and an astonishing growth rate of 59.7% in the first half of 2023, but also provided ample development opportunities for upstream titanium resource companies and downstream titanium materials processing enterprises.

In the context of downstream applications, due to the high strength, excellent corrosion resistance, and appealing surface aesthetics of titanium and titanium alloys, it has gained widespread attention and popularity in the fields of Computers, Communications, and Consumer Electronics (3C) . Many well-known electronic manufacturers have noticed those advantages of titanium, incorporating it into casings, interiors, and accessories within their product designs. The range of products incorporating titanium is constantly expanding. Currently, it has been successfully used in mobile phones, watches and other wearable devices of many well-known domestic and foreign brands.

Accomplishments

In terms of industry influence, the Group's breakthrough in powder metallurgy tools steel, which filled a domestic gap and broke the international technology monopoly, was featured in CCTV's large-scale industrial documentary "The Material of Pillars." This marked a significant development in China's powder metallurgy tools steel sector, heralding the era of "Tiangong Leads".

After Jiangsu Tiangong Tools New Materials Company Limited ("TG Tools") obtained the advanced Authorized Economic Operator ("AEO") certificate from China Customs, Tiangong Precision also successfully achieved this advanced AEO certification, providing the most favorable and convenient management measures for the Group's export business in tools steel and cutting tools products. This certification promotes global supply chain security and trade facilitation.

In terms of recognitions, Jiangsu Tiangong Technology Company Limited ("TG Tech") was recognized as a national-level "Small Giant" enterprise. Jiangsu Weijian Tools Technology Company Limited received recognition as a specialized and new enterprise in Jiangsu Province. TG Tools was awarded a national-level postdoctoral research station, and Tiangong Aihe Company Limited ("TG Aihe") was rated as a smart factory in Jiangsu Province. Furthermore, 江蘇天工硬質合金科技有限公司 (Jiangsu Tiangong Cemented Carbide Technology Company Limited*) was recognized as an intelligent workshop. These series of recognitions and honors reflect the Group's comprehensive strength in production, research and development, and management.

Additionally, according to the 2023 annual Supplier Quality Award list announced by Stanley Black & Decker, Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools"), a subsidiary of the Company, stood out among nearly 5,000 global suppliers by winning the "Excellence in Quality Improvement Award", as one of the ten suppliers to receive this quality award. At the same time, Precision Tools was recognised as "Best Performing Supplier in 2023" by Fastenal/FASTCO for the top-quality products and superior services level. These awards demonstrates that the Group's products once again receive support and recognition from the customers. The Group will continue to create value for customers in our relentless pursuit of quality and service.

In terms of construction projects, the 7,000-ton fast forging project successfully commenced the production in August 2023. This has upgraded the product structure, accelerating the Group's entry into the integrated die-casting industry.

TG Tech made positive progress in its application for listing on the Beijing Stock Exchange in 2023. Following the passage of the Resolution Regarding the Company's Application for the Public Issuance of Stocks and Listing on the Beijing Stock Exchange at the general meeting of TG Tech on 15 June 2023, the Group announced a more detailed fundraising plan on 21 December 2023 (for further details, please refer to the Company's announcement dated 21 December 2023). TG Tech expects to raise gross proceeds of approximately RMB360 million, mainly for the construction of a production line for high-end titanium and titanium alloy bars and wires with an annual output of 3,000 tons. This move will increase TG Tech's production output, and enhance the performance and quality of its products, thereby strengthening TG Tech's and the Group's scale advantage and overall strength in the titanium and titanium alloy industry.

Future Outlook

Operation Strategy

The Group has been leading the industry with its professional equipment, technology and management advantages. Over the year, the Group focused on research and development as well as cost control. It is committed to transforming its long-standing achievements and experience into innovative applications in the advanced materials industry. This effort aims to empower the industry's development and upgrade, while also striving to meet the domestic market demand and gain international market share. Precise strategy, efficient execution ability and world-leading technology are the three cores of the Group.

Domestic industry development

In recent years, the development strategy of advanced materials industry focused on meeting upgrade requirements of downstream industries and align with the development direction of strategic emerging industries. As a result, the domestic advanced materials industry has entered a new stage of high-quality development. This stage is characterized by optimally adjusted production output and industrial structure, along with enhanced technological content and added value of products.

Moreover, policy guidance has clearly emphasised the critical role of advanced materials products in strategic emerging industries such as new energy, aviation and aerospace, marine engineering, and high-end equipment manufacturing. To align with development trends, high-end materials companies have focused on improving their product energy efficiency. Through technological innovation, product upgrading, and smart manufacturing, they aim to meet market demands for high-performance, advanced materials. This effort has led to the development of new product type and the optimization of smelting processes. Additionally, by introducing advanced production equipment and enhancing quality control, these companies ensure that their advanced materials products meet the stringent requirements of high-end applications. In the meantime, with increasingly stringent environmental protection requirements, the advanced materials industry has also actively responded to the national green development strategy by implementing clean production processes, improving energy efficiency, and reducing emissions, as its commitments to advancing the green transformation of the industry. In addition, advanced materials companies are also strengthening cooperation with downstream users, by meeting customers' personalised needs through customised services and solutions, further enhancing the market competitiveness and influence of the advanced materials industry.

The automotive industry continues to inject growth momentum into the advanced materials industry, with new energy vehicles focusing on lightweight development. According to the China Association of Automobile Manufacturers, in 2023, China's production and sales of new energy vehicles reached approximately 9.59 million and 9.50 million vehicles, representing a year-on-year increase of 35.8% and 37.9%, respectively, with a market share of 31.6%. 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.

The titanium alloy industry in China is undergoing rapid transformation and upgrading, steadily advancing towards the high-end transformation, which demonstrates great development potential in the civilian market. The market demand demonstrated a rapid growth trend. In line with the steady expansion of the downstream market, China's civilian titanium alloy market is gradually revealing its vast potential for development.

The new generation of titanium and titanium alloy materials have made significant breakthroughs in consumer electronics, 3D printing, and other application fields. With the increasing demand from consumers for daily life quality and the gradual reduction of industrial costs of titanium materials, titanium and titanium alloy materials, as high-quality materials, will be widely used in consumer electronics, biomedical, leisure life, and other civil fields.

Export operation

As the industry continues to evolve, the special steel sector is developing towards globalization and deep processing. The Group has profound insight into the industry's development trends and is committed to transitioning its products into the realm of deep processing. This strategic structural adjustment has allowed the Group to optimize its product structure and position itself at the forefront of the high-end market. The Group aims to develop and supply more refined, high value-added tool steel products, catering to the increasing global demand for high-quality special steel.

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 completed. The total annual production capacity of the two-phase project amounted 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 tool steel powder metallurgy production line in the PRC in December 2019, the Group successfully entered the powder metallurgy industry. As the only enterprise in the domestic cutting tool sector with a complete industry chain from producing high-end powder materials to powder tools, the Group has made significant breakthroughs in overcoming foreign technical monopoly and expending into the high-end market.

During 2023, the Group showed continuous vitality in the field of powder metallurgy, with ongoing progress in the research and development of high-end products. Moreover, 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 and achieved 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.

Integrated die casting mold steel industry

The Group initiated the construction of a 7,000-ton fast forging project in 2022. The goal of this project is to enhance the Group's product structure system to meet the increasing demands for mold materials amid the comprehensive technological and equipment upgrades in downstream industries, including the integrated die-casting sector. In August 2023, the 7,000-ton fast forging project was officially launched, marking an end to domestic reliance on imported oversized die steel. Simultaneously, the Group has established connections with several automobile manufacturers, laying the groundwork for future material research and development, as well as market expansion.

Diversified Cutting Tools Industry

As the only domestic enterprise with a full industrial chain from the production of high-end materials to cutting tools, in recent years, the Group has continuously improved material performance and led the upgrading of cutting tools. During the year 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

Consumer electronics is an emerging application area for titanium. After the launch of the iPhone 15 series in September 2023, the use of titanium as the frame for high-end smartphones has become more popular, and the market has developed rapidly since then. According to a research report issued by a leading Chinese investment bank, it is predicted that from 2024 to 2027, global smartphone consumption of titanium materials will grow steadily, from 10,600 tons to 22,900 tons, with the corresponding market size increasing from RMB1.81 billion to 3.89 billion. Another Chinese securities firm's research report also indicates that China's smartphone demand for titanium will reach 18,711 tons by 2027. At the same time, another prominent Chinese securities firm also expects significant growth in the application of titanium materials in the consumer electronics field, with consumption expected to reach 31,000 tons by 2025, accounting for 12% of total sales.

Assuming smartphone shipments will grow at a steady rate of 2% per year from 2025 to 2027, combined with the increased penetration of high-end smartphones and titanium alloy frames, the demand for titanium materials in consumer electronics is expected to rise. Data from Statista presents an optimistic outlook for the consumer electronics market, which is expected to grow from US$225.5 billion in 2022 to US$255.0 billion in 2028, with a compound annual growth rate of 2.07%. The demand for titanium in consumer electronics will continue to grow with the increasing adoption of titanium by major consumer electronics brands and its wider use in wearable devices, tablets, and laptops.

The increase trend in demand for titanium materials is also evident in the Chinese market. According to data from the China Nonferrous Metals Industry Association, the titanium demand in the consumer electronics industry is expected to be 10,000 tons in 2023 and rise to 61,000 tons by 2025. The projected annual domestic demand for titanium materials in China will exceed 250,000 tons by 2025 with CAGR of approximately 20.0%, indicating a vast market potential.

TG Tech, a subsidiary of the Company, has entered into an important cooperation with a domestic consumer electronics supply chain processor, involving the use of titanium and titanium alloy wire 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.

TG Tech is currently applying for a listing on the Beijing Stock Exchange to raise funds for its development and expansion plans, under which the production lines for high-end titanium and titanium alloy bars and wires will be constructed to further advance the strategy of deep processing of titanium materials. Besides expanding the production of high-end titanium and titanium alloy wires, TG Tech will enhance its product performance, thereby improving the market competitiveness of the products to meet the growing market demand.

As a leading private enterprise in the Chinese titanium alloy industry, the Group has gradually developed 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.

3D Metal Printing Industry

3D metal printing, one of the Additive Manufacturing (AM), revolutionizes manufacturing by building parts layer by layer using three-dimensional model data. Unlike traditional subtractive manufacturing methods, 3D printing deposits materials such as metal powder or resin to create complete objects, simplifying the manufacturing process.

Over the past years, significant advancements in AM drove innovation across industries, sparking a revolution. The projected development expected by 2024 will revolutionise the manufacturing processes and enhance product capabilities across sectors like semiconductors, consumer durables, aerospace and defense, medical devices, and dentistry. According to a report at the 2023 Additive Manufacturing Industry Annual Conference, the Chinese 3D printing market is projected to reach nearly RMB100 billion by 2027, driven by an average annual growth rate of 25%. Metal 3D printing offers advantages such as shorter design phase, improved performance, and reduced waste compared to traditional methods like CNC machining.

This technology enables the production of complex structures and high-strength components, particularly in mold manufacturing. 3D printing enhances the performance of the parts, optimizes mold grain structure, and reduces the need for post-processing treatments like quenching. As a result, metal 3D printing is poised to revolutionize mold manufacturing, contributing to the industry's continued advancement.

The Group, being the leading manufacturer and supplier in the metalworking industry, is at the forefront of this transformative shift. With its expertise in metal fabrication and commitment to innovation, the Group has actively researched and developed metal powder technology, including tools steel powder and titanium and titanium alloy wires for additive manufacturing, to support the development of the additive manufacturing from the advanced material perspective.

Marketing Strategy

The Group has been operating in collaboration with downstream mid-to-high end heat treatment technology and piece cutting service providers by establishing cooperation companies in eastern, southern and western China, and other regions to provide technical support to downstream customers. This achieved 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.

At the same time, the Group actively promotes the market development of high-end materials, such as powder metallurgy high-speed steel and large-size mold steel. By establishing direct contact with end-users, the Group gains an in-depth understanding of market needs, thereby providing professional and customized services.

Green Development

The Group actively advocates for a circular economy model, implementing recycling and sustainable resource management strategies with a special focus on conserving materials during the production process. As a pioneer in the new material industry adopting short-process production, the Group consistently emphasizes green development, aiming to "Build a garden factory and create a civilized enterprise." By recycling waste materials and continuously optimizing production processes, the Group aims to reduce carbon emissions at their source. Over the year, multiple measures have been implemented to uphold the green development principles.

The Group utilized efficient furnace technology and short-process smelting techniques to effectively recycle alloys and scrap materials, thereby producing high-quality materials. This streamlined process not only optimizes production but also significantly reduces energy consumption and emissions, greatly enhancing resource efficiency. Moreover, through the adoption of short-process production technology, the Group significantly shortens production cycles and enhances product quality control, driving market progress. This approach, by minimizing intermediate steps and reducing material handling losses, not only lowers production costs but also maximally reduces material waste and environmental pollution, further solidifying the group's commitment to green production principles.

Considering the direction of relevant policies and industrial guidelines, low-carbon and environmentally friendly development will undoubtedly become a prerequisite for the survival and growth of advanced materials enterprises in their next stage. This is not only an important realization of corporate social responsibility, but also a key driver for the entire manufacturing 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 and rooftop photovoltaic project that provides green energy. TG Tools and TG Tech, subsidiaries of the Group, were included in the list of "'City-level Green Factory' in 2022" and "'City-level Green Factory' in 2023" released by the Industry and Information Technology Bureau of Zhenjiang City, respectively.

During 2023, 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 2023, there was marked improvement in scores related to corporate governance and social aspects, demonstrating the Group's commitment to sustainable development. Moving forward, while vigorously developing its business, the Group will continue to devote itself to the cause of 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 invested heavily to develop an integrated digital information system, "Digital Tiangong", which covers all business areas of the Group. The system completes the digital development of five areas: from sales to payment collection, purchases to payment, planning to resources, manufacturing to costs, and order to delivery, which will effectively improve the performance of network procurement, comprehensively enhance the synergy of the industrial supply chain, greatly enhance the competitiveness of the Group. 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.

The Group's Tiangong Alloy Melting Smart Factory Project was officially launched in 2023. The completion of this comprehensive digitalization and informatization of the alloy melting workshop will establish a systematic management of the whole process from raw material warehouse to production workshop and then to finished product warehouse, as well as the transparent management of the production process.

Our Mission

The Group has always strived for innovation and advancements in competitiveness to consolidate its leading market position. The Group re-affirms its mission to maximise shareholder value, uphold high corporate governance standards and lead the industry to move forward.

Forward Looking Statements

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

Forward looking statements involve inherent risks and uncertainties. Readers including shareholders and investors should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

Liquidity and Financial Resources

As at 31 December 2023, the Group's current assets included cash and cash equivalents of RMB749,087,000, inventories of RMB2,477,492,000, trade and other receivables of RMB3,552,788,000, pledged deposits of RMB129,288,000 and time deposits of RMB1,307,985,000. As at 31 December 2023, the interest-bearing borrowings of the Group were RMB2,895,021,000 (2022: RMB2,895,313,000), RMB2,209,423,000 of which was repayable within one year and RMB685,598,000 of which was repayable after less than one year. The Group's adjusted net debt-to-equity ratio, which is calculated based on adjusted net debt (defined as total interest-bearing borrowings plus unaccrued proposed dividends, less time deposits and cash and cash equivalents) divided by adjusted capital (comprising all components of equity, less unaccrued proposed dividends) as at 31 December 2023, was 13.0% (2022: 6.2%).

As at 31 December 2023, borrowings of RMB2,233,670,000 were in RMB, USD13,414,000 were in USD, EUR59,263,000 were in EUR and HKD111,000,000 were in HKD. The borrowings of the Group were subject to interest payable at rates ranging from 2.6%–6.44% per annum. There is no seasonality in borrowing requirements of the Group. The Group did not enter into any financial instruments to hedge itself against risks associated with interest rates and foreign currency exchange fluctuations.

During the year, net cash generated from operating activities was RMB55,129,000 (2022: RMB303,553,000). The decrease was mainly attributable to: (i) decrease in operating profit; and (ii) businesses were gradually improved in the fourth quarter, resulting in an increase in working capital tied up in accounts receivable at the end of the year.

Cash Conversion Cycle

The cash conversion cycle, calculated as turnover days over inventory, plus turnover days over trade receivables, minus turnover days of trade payables, attempts to measure the amount of time each net input dollar is tied up in the production and sales process before it is converted into cash through sales to customers. It is important to manufacturers because it measures the efficiency of their capital chain management.

The Group's turnover days of inventory for 2023 was 230 days (2022: 226 days). The increase in turnover days of inventory was mainly due to the stock up in preparation for expected overseas demand on tools steel and cutting tools products and the increasing cost of materials which boosted the average cost of inventories balance. The Group maintained an effective and efficient balance between the stock level and sales forecasts.

The Group's turnover days of trade receivables for 2023 was 184 days (2022: 150 days) while the turnover days of trade payables for 2023 was 114 days (2022: 114 days).

Accordingly, the Group's cash conversion cycle for 2023 was 300 days (2022: 262 days). The increase in cash conversion cycle was mainly driven by export business, unstable shipping capacity required higher inventory level and the longer credit periods for overseas customers. The management will continue to monitor closely the operations in view of the changing business environment.

Caution: It should be noted that the calculation of the aforesaid indexes may not be consistent with those measurement indexes published by other issuers.

Capital Expenditure and Capital Commitments

For 2023, the Group's net decrease in property, plant and equipment amounted to RMB100,678,000. Major capital expenditures were completed in previous years. Capital expenditures in 2023 were relatively moderate and net depreciation began to reflect. As at 31 December 2023, capital commitments were RMB591,863,000 (2022: RMB268,986,000), of which RMB46,122,000 (2022: RMB58,268,000) were contracted for and RMB545,741,000 (2022: RMB210,718,000) were 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.

Foreign Exchange Exposure

The Group's revenues were denominated in RMB, USD, EUR and THB, with RMB accounting for the largest portion of 50.0%. 50.0% of total sales and operating profit were subject to exchange rate fluctuations. The Group has put in place measures such as monthly review of product pricing in the light of foreign exchange fluctuations and incentivising overseas customers to settle balances on a more timely basis to minimise the financial impact of exchange rate exposures.

Pledge of Assets

As at 31 December 2023, the Group pledged certain bank deposits amounting to RMB129,288,000 (2022: RMB140,041,000) and certain trade receivables amounting to RMB161,843,000 (2022: RMB145,131,000). The decrease in pledged bank deposits was mainly due to the decrease in the outstanding balance of bank acceptance bills.

Material acquisition and disposal

Deemed disposal of equity interest in TG Tech

On 21 December 2023, a formal application to the Beijing Stock Exchange ("BSE") was submitted in respect of the proposed listing of TG Tech's shares on BSE, pursuant to which it is proposed that new shares of TG Tech will be allotted and issued to unspecified qualified investors (不特定合格投資者) by way of a combination of placing and online bidding, or other methods as agreed by the China Securities Regulatory Commission ("CSRC"), subject to (among other things) approvals by relevant PRC regulators (the "Proposal"). Subject to the approval of the BSE and registration with the CSRC, it is expected that the number of TG Tech Shares to be offered will be: (i) not more than 60,000,000 TG Tech Shares (without taking into account exercise of any over-allotment option which may be granted); or (ii) not more than 69,000,000 TG Tech Shares (assuming full exercise of any over-allotment option which may be granted).

As at the date of this report, the Company indirectly holds 443,380,623 TG Tech Shares (representing approximately 75.58% of the issued share capital of TG Tech). Upon the completion of the Proposal, the Company shall indirectly hold approximately 68.57% of TG Tech (if the over-allotment option is not exercised) or 67.63% of TG Tech (if the over-allotment option is fully exercised). As at the date of this report, the approval of the BSE and registration by the CSRC in relation to the intended listing of the shares of TG Tech on BSE is still pending.

For further details, please refer to the Company's announcement dated on 21 December 2023.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries and associates of the Group during the reporting period.

Employees' Remuneration and Training

As at 31 December 2023, the Group employed 3,517 employees (2022: 3,134 employees). Total staff costs for the year amounted to RMB396,641,000 (2022: RMB365,053,000). The increase was mainly resulted from increase in headcount. The Group provided employees with remuneration packages comparable to market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provides compulsory continuous training for all of its staff on a regular basis.

Contingent Liabilities

Neither the Group, nor the Company, had any significant contingent liabilities at the end of the reporting period.

Principal Risks and Uncertainties

The main activities of the Group include production and sales of DS, HSS, cutting tools and titanium alloy. The Group is exposed to a variety of financial risks including credit risk, liquidity risk, currency risk and interest rate risk. In order to minimise the credit risk in relation to trade receivables, the Directors have delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that appropriate follow-up actions are taken to recover overdue debts. The Group has also purchased insurances relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. Details of the above main risks and measures for risk reduction are set out in note 34 to the financial statements.

Apart from the financial risks mentioned above, the Group is exposed to certain operating risks and uncertainties including rare metal price volatility and market demand.

Risks and uncertainties arising from rare metal price volatility

Rare metals represented a significant portion in the cost of materials of the Group's products. The price of rare metals significantly affected the per unit production costs of the Group's products. In view of the risk of rare metal price volatility, the Group has already engaged with rare metal suppliers to obtain discounted prices for purchasing rare metals over a fixed period of time. Moreover, since the price of rare metal is publicly available market information, the Group was capable to partially transmit the effect of rare metal price volatility to downstream customers. However, because of the transparency of the rare metal prices, in extreme situations where the rare metal price remained low, the Group could be under pressure to make downward pricing adjustments on our products.

Risks and uncertainties arising from market demand of the Group's products

The Group's business and profitability growth were affected by the uncertainties of global macroeconomic situations, which could materially affect the manufacturing industry. These uncertainties would eventually affect the demand of the Group's products. To minimise the effect of global macroeconomic uncertainties, the Group continued to develop new markets all over the world. The Group believes that the best way to manage such risks and uncertainties is to avoid reliance on demand from a particular economy.

In Compliance with Laws and Regulations

As a company listed in Hong Kong, the Company is subject to the regulations of the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Stock Exchange"). Since the shares of TG Tech, a 75.58% owned subsidiary of the Company, are quoted on the National Equities Exchange and Quotations System (the "NEEQ System")(Note), TG Tech is subject to the regulations of the NEEQ System. Also, various PRC government authorities, particularly the State Environmental Protection Administration, have the authority to issue and implement regulations governing various aspects of special steel production. The Group will constantly update and ensure compliance with new rules and regulations issued by these regulators.

As at 31 December 2023 and up to the date of this report, the Board was unaware of any non-compliance with the relevant laws and regulations that had a significant impact on the Group.

Note: A formal application TG Tech to the BSE was submitted was submitted in respect of the proposed listing of TG Tech's shares on BSE. For further details, please refer to the paragraph headed "Material acquisition and disposal" of this Management Discussion and Analysis section.

Relationships with Key Stakeholders

(i) Employees

The Group recognises human resources as assets important to the Group's development and growth. Most of the Group's employees were working at the manufacturing plant in Zhenjiang City, the PRC. The Group provided employees with remuneration packages comparable to the market rates and employees were further rewarded based on their performance according to the framework of the Group's salaries, incentives and bonuses scheme. In order to enhance the Group's productivity, and further improve the quality of the Group's human resources, the Group provided compulsory continuous training for all of its staff on a regular basis.

As at 31 December 2023, the gender ratio of the Group's workforce (including the Company's senior management) was approximately 67% male to 33% female. The Company's hiring is merit-based and non-discriminatory. Due to the nature of the businesses involved, it is common for there to be a higher number of male employees hired and therefor the Board is satisfied that the Company has achieved gender diversity in its workforce.

(ii) Suppliers

The Group's suppliers mainly supplied us with raw materials and utilities in the PRC. The Group developed longstanding and good relationships with its suppliers. Our procurement department conducted regular meetings with the suppliers of raw materials and utilities to ensure that raw materials supplied and utilities were in stable supply and of good quality.

(iii) Customers

The Group established long-term cooperation relationships with major customers. The sales team in domestic and overseas sales offices visit and discuss with customers regularly so as to keep us well-informed of market information and changes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. About This Report

1.1 Basis of Preparation

This report serves as the eighth Environmental, Social, and Governance (hereinafter referred to as "this ESG Report") released by Tiangong International Company Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), primarily presenting the Group's Environmental, Social, and Governance (hereinafter referred to as "ESG") performance for the year 2023.

The Company prepared this report in accordance with the Environmental, Social, and Governance Reporting Guide (hereinafter referred to as the "ESG Guide") in Appendix C2 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Listing Rules") issued by the Stock Exchange. This ESG Report was intended to be read in conjunction with the "Corporate Governance Report" section of the Tiangong International Company Limited Annual Report 2023 (hereinafter referred to as the "2023 Annual Report") to provide a thorough understanding of the Group's ESG performance.

1.2 Report Scope

The organizational scope of this ESG Report encompasses the Company and its major subsidiaries.

The scope of this ESG Report aligns with that of the 2023 Annual Report, covering the period from 1 January 2023 to 31 December 2023 (hereinafter referred to as the "reporting period"). In order to enhance the completeness of the report's narrative, some content exceeds the above scope.

1.3 Report Principles

Materiality Principle

The Group identifies and confirms the material issues applicable to the Group during the reporting period through a materiality issue review, and focuses on disclosing these relevant issues in this ESG Report.

Quantification Principle

To comprehensively assess the Group's ESG performance during the reporting period, the Group discloses quantitative key performance indicators applicable within the ESG guidelines. It also specifies the standards, methods, assumptions, and references used for the calculation of these quantitative key performance indicators, including the sources of major conversion factors.

Consistency Principle

Unless otherwise stated, this ESG Report adopts the same preparation and data calculation methods as the previous reporting period, allowing readers to make meaningful comparisons of the ESG information in this ESG Report.

Balance Principle

This ESG Report follows the balance principle, objectively presenting the Group's ESG performance and management status during the reporting period.

1.4 Publication Format

This ESG Report is published in both Traditional Chinese and English. In the event of any discrepancies or inconsistencies between the Traditional Chinese and English versions, the Traditional Chinese version shall prevail. You can obtain the Traditional Chinese and English PDF versions of this ESG Report through the Group's website homepage at http://www.tggj.cn/ and the Hong Kong Exchanges and Clearing disclosure website at https://www.hkexnews.hk/index_c.htm.

1.5 Report Feedback

If you have any valuable comments or questions regarding the Group's ESG efforts, please contact the Group via email.

Email: tiangongir@tggj.cn

2 Board of Directors' Statement

The Group strongly recognizes the importance of ESG for the long-term stable operation of a business. The Group strictly adheres to all requirements of the ESG guidelines, continuously improving the Group's ESG management system and oversight mechanisms. The Board is the highest responsible, decision-making, and supervisory body for the Group's ESG matters, primarily responsible for ESG-related management work and overseeing and coordinating the Group's ESG-related risk management.

The Group regularly conducts substantive assessments of environmental, social, and governance issues, with the specific assessment process and results detailed in the "Substantive Issue Assessment" section of this report. The Board has assessed the potential impact and opportunities of ESG-related matters on the Group's overall strategy and has reviewed the results of the substantive assessment of ESG issues. The Board is informed about the Group's ESG-related issues and confirms the current ESG-related management policies and ESG management philosophy. Detailed disclosures about the Group in important ESG issue on the environmental and social dimensions has been provided in this report.

The Board continuously strengthens its oversight and involvement in the Group's ESG governance and has completed the review of the progress and outcomes of the ESG-related goals set in the previous year. The Group continuously monitors the progress and achievement of the targets set for greenhouse gas emissions, energy and resource efficiency and waste management, and discloses them in this ESG report.

This report is truthful, accurate, and complete, containing no false records, misleading statements, or significant omissions.

3 ESG Management

3.1 ESG Governance Structure

The Board is the highest responsible body for the Group's ESG matters, overseeing all ESG-related matters within the Group and responsible for the formulation and review of the Group's ESG development strategy and objectives. The Board leads and participates in the identification, assessment, determination and review of ESG risks and other related matters, establishes a list of potential ESG risks, and ensures that appropriate and effective risk management and internal control initiatives are put in place through well-established risk management and internal control procedures. Guided by the Board, the Group strictly adheres to the laws and regulations of the operating regions during the decision-making process on significant issues. Additionally, in accordance with the actual situation of the Group, internal regulations, policies, and procedures related to ESG matters are established to ensure the standardization and implementation of relevant management work.

Furthermore, to further integrate the ESG concept into corporate governance and comprehensively enhance the Group's ESG management level, an ESG working group has been established under the Board. This group is led by the Group's directors, Chief Financial Officer, and head of the securities investment department, with members appointed from various ESG-related departments of the Group and liaisons from the Company's subsidiaries.

The responsibilities of the ESG group include:

➢ Assisting the Board in coordinating and supervising the implementation of the Group's ESG policies and the realization of ESG strategies.

➢ Reviewing and examining the latest developments and trends in ESG sustainability.

➢ Continuously following the latest developments and trends in industry sustainability.

➢ Reporting significant ESG matters and potential ESG risks to the Board.

➢ Regularly collecting ESG-related data and information to assist in the preparation of this ESG report.

3.2 Stakeholder Engagement

The Group established a regular communication mechanism with various stakeholders to fully understand their expectations and requirements on the Group's implementation of sustainable development concepts and ESG management, through questionnaires, surveys, interviews, and other forms. The main issues of concern to stakeholders and the Group's primary methods of communication and response were as follows:

Stakeholder Category	Main Concerns	Communication Response Methods
Shareholders and Investors	Corporate Governance, Investment Returns, Operational Performance, Compliance and Risk Control	Shareholders' meetings, Earnings release conferences, Regular and ad hoc announcements, Investor relations activities
Directors	Corporate Governance, Operational Performance, Compliance and Risk Control	Board meetings, Internal meetings and reports
Senior Management	Corporate Governance, Operational Performance, Compliance and Risk Control, Product Quality, Safe Production, R&D Innovation	Internal meetings and reports, Internal information communication platforms
Employees	Protection of Employee Rights, Employee Development and Training, Diversity and Equality, Employee Welfare and Care, Occupational Health and Safety	Workers' congress, Internal information communication platforms, Internal newsletters, Multimedia (WeChat public accounts and other social platforms)

Stakeholder Category	Main Concerns	Communication Response Methods
Government and Regulatory Bodies	Compliance and Risk Control, Business Ethics, Lawful Taxation, Social Contributions, Green and Environmental Protection	Government visits, On-site research, Official correspondence, Information disclosure
Customers	R&D Innovation, Green and Low-Carbon Products, Customer Service Experience, Innovation and Smart Manufacturing	Customer satisfaction surveys, Customer hotline, Official media platforms, Customer/User conferences
Suppliers	Fair Trading, Supply Chain ESG Risk Management, Corporate Empowerment Support	Supplier qualification audits, Supplier exchange conferences
Industry Associations	Innovation and Smart Manufacturing, Industry Co-creation and Development, Green and Low-Carbon Products, Product Quality Assurance	Industry associations, Exchange and visitation, Information disclosure, Exhibition activities
Media	Corporate Brand Image, Corporate Strategic Development, Innovation and Smart Manufacturing	Media briefings, Press releases/Announcements, Media exchange activities
Community	Public Welfare and Charity, Community Involvement, Green and Environmental Protection	Social welfare projects, Community volunteer activities, Community engagement

3.3 Materiality Issue Assessment

To fully understand the focus of stakeholders, respond to their expectations and demands, and integrate their suggestions into its ESG management practices, the Group regularly conducts assessment and analysis of ESG materiality issues, and reviews and examines the assessment results.

ESG Materiality Issue Analysis Process:

Issue Identification

➢ Refer to the ESG Reporting Guide of the Stock Exchange and capital market ratings, benchmark against excellent management practices in the same industry to identify and organize substantive issues covering governance, economic, social, and environmental dimensions, forming its own issue library.

Stakeholder Survey

➢ Determine the key stakeholder groups and the methods and channels of communication with them.

➢ Invite key internal and external stakeholders to fill in online or offline survey questionnaires to rank the importance of issues in the ESG issue library based on their impact.

Analysis and Assessment

➢ Organize questionnaire feedback and survey results.

➢ Combine issue maturity, stakeholder concern, and materiality to the Group for ranking.

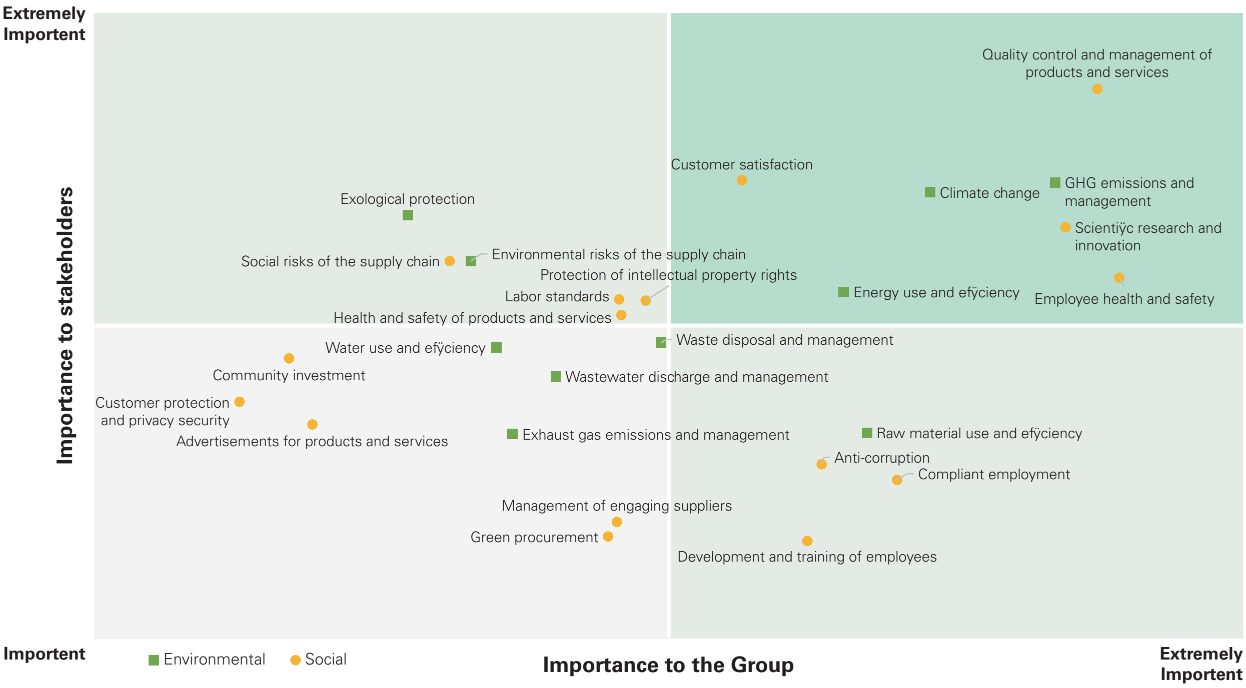
➢ Produce a materiality matrix, from which genuinely materiality issues are identified through matrix analysis.

Review and Confirmation

➢ Confirm materiality issues in conjunction with expert opinions.

➢ The Board of Directors reviews and confirms high-impact materiality issues to be prominently disclosed in the annual ESG report.

During the reporting period, the Group reviewed and updated the results of the previous year's materiality issues. The following are two materiality issue matrices for environmental and social aspects:



Materiality Matrix of the Group

4 Strengthening Governance Foundation

The Group adhered to the principle of integrity and law-abiding, established a sound compliance and internal control system, continuously improved the ability to identify and cope with risks, enhanced employees' awareness and emphasis on integrity and self-discipline. The Group maintained a zero-tolerance stance towards any illegal or non-compliant actions, so as to build up the compliance foundation for the sustainable development of the Group.

4.1 Enhancing Compliance and Internal Control

The Group established a comprehensive compliance and internal control management mechanism, formulating the Legal Affairs Department Management System, Internal Audit System, and Contract Management System. Through the collaborative management of the operational, legal and internal audit departments, and the continuous optimization of various system norms and management processes, it ensures the smooth progress of corporate compliance and internal control matters, preventing any actions that may harm the interests of the Group and safeguarding the Group's legitimate rights and interests.

The internal audit department mainly audits key matters such as internal control, financial status and trade security, and makes recommendations for improvement. The internal audit department rotates every 3-5 years to maintain the fairness and objectivity of supervision. During the reporting period, the Group completed 15 internal audit tasks, and all relevant rectification recommendations have been fully implemented.

Case: Precision Tools successfully passed customs' Authorized Economic Operator (AEO) advanced certification and business training

During the reporting period, Precision Tools, a subsidiary of the Company, has successfully passed the customs AEO advanced certification. As a "gold medal" and "green pass" for international trade, the customs AEO advanced certification can bring the company higher customs clearance efficiency and more convenient customs clearance services.

During the certification process, the customs certification experts asked questions and made on-site investigation on the financial status, import and export process, information system, internal audit, personnel safety, premises safety, cargo transportation tools safety, business partners management and the work of each department, and gave guidance and improvement opinions on the relevant weak links. Precision Tools ensures that all relevant departments will make improvements to the relevant links in accordance with the experts' guidance.

4.2 Adhering to Business Ethics

The Group adheres to the principle of integrity and maintain a zero-tolerance stance towards any form of illegal acts such as corruption, bribery, extortion, money laundering, and fraud and any other forms of illegal behavior, committing to establishing a fair, transparent and healthy business environment. The Group strictly follows the Criminal Law of the People's Republic of China, Supervision Law of the People's Republic of China, and the Interim Provisions on Prohibiting Commercial Bribery among other relevant laws and regulations. In conjunction with the regulatory requirements of the locations where business operations are conducted, the Group formulated and implemented the Tiangong International Company Limited Code of Business Conducts, the Employee Integrity and Self-discipline Management Regulations and other relevant laws and regulations. These regulations clarify the meaning and requirements of various aspects such as discrimination, harassment, conflict of interest, insider trading, bribery and corruption, fair trading and social responsibility. The Group also signed the Employee Integrity Agreement with all employees to ensure that every employee is clear about their responsibilities, to uphold the mutual interests of the Group and its employees. Furthermore, the Group requires employees in key positions to sign the Employee Integrity and Self-discipline Commitment Letter and the Responsibility Letter for Employees Assigned to Overseas Companies (Branches) to further strengthen their awareness of integrity responsibilities.

The Group has established a business ethics supervisory organization to regularly review and evaluate business activities, promptly identify possible business ethics risks and problems, make recommendations for improvement and check the status of rectification to ensure that business activities comply with the requirements of the code of conducts. The Group has also established a business conduct reporting mechanism and the Regulations on Complaints, Reporting and Appeal Management to encourage employees and other stakeholders to actively report violations of the code of business ethics. For employees who violate the Code of Business Conducts, the Group will take appropriate internal punitive measures depending on the nature and severity of the violation. In the event that a report is received, the Group will immediately initiate an investigation process and handle the matter in accordance with the law. In addition, the Group protects employees or stakeholders who make complaints and monitors them by the Group's employee representatives and labor unions, and strictly prohibits any retaliation or discriminatory actions such as disciplinary action, punishment or dismissal. During the reporting period, the Group did not receive any reports or complaints of non-compliance (including corruption, harassment, discrimination, etc.) and there were no non-compliance case in relation to anti-corruption-related laws and regulations brought against the Group or its employees.

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To enhance employees' awareness of the importance of integrity and self-discipline and better implement the rules of integrity and self-discipline, the Group holds monthly integrity learning meetings for middle and senior management (including directors, supervisors, financial executives, managers, production line managers, etc.). Additionally, the Group invites external experts to conduct relevant training sessions from time to time.

Case: Special Legal Education and Training on Preventing Occupational Crimes

In May 2023, the Group conducted a special training session titled "Preventing Occupational Crimes, Upholding Bottom Lines — Compliance with Listed Management Standards" aimed at enhancing the legal awareness of key position management personnel, including the Chairman, General Manager, and directors. The training, attended by over four hundred participants, featured a lecture by the Deputy Chief Prosecutor of the People's Procuratorate of Danyang City. Utilizing case studies to illustrate legal principles, the Group disseminated relevant legal knowledge on occupational crimes, their severe consequences, and strategies for prevention. The training aimed to deeply instill in all participants the importance of respecting, learning, and adhering to the law, emphasizing the significance of using authority in compliance with legal and regulatory requirements.

4.3 Ensuring Information Security

The Group strictly adheres to laws and regulations such as the Cybersecurity Law of the People's Republic of China, the Data Security Law of the People's Republic of China, and the Personal Information Protection Law of the People's Republic of China. The Group formulated the Information Security Management System to prevent system data leakage, illegal intrusion, and tampering risks, thereby building a robust information security defense. An Information Security Management Leadership Group was established to oversee information security management, with the leader responsible for the Group's information technology serving as the group leader, and vice presidents and department heads as members to implement relevant tasks. The Data Center is responsible for the daily security management and operation of information systems, assisting in the formulation, revision, and improvement of information security regulations.

The Group implements comprehensive data security measures, including local, off-site, and private cloud backups, restricting external visitor access, and deploying real-time data protection with firewalls and vulnerability scanning. The Group also effectively distinguishes between business networks and internal networks to prevent potential security threats and enhance the reliability of network support for business operations.

Annual information security training is conducted for key staff, covering requirements for secure information system usage and confidentiality regulations. During the reporting period, the Group did not experience any information security-related incidents such as data leaks.

TG Tools Held a Special Training on Information Security

5 Composing the Green Chapter

The Group understands its responsibility to the environment, emphasizing the protection of the ecological environment essential for human survival while advancing business development. Therefore, the Group continuously improves our environmental management system, strengthen internal management, reduce energy consumption and pollution emissions, and prevent environmental pollution accidents. Our subsidiary TG Tools and TG Tech have respectively been awarded the titles of "2022 Municipal Green Factory" and "2023 Municipal Green Factory" by the Zhenjiang Municipal Bureau of Industry and Information Technology.

5.1 Environmental Management System

The Group strictly complies with laws and regulations such as the Environmental Protection Law of the People's Republic of China and the Law on the Prevention and Control of Air Pollution, and has established management systems such as the Environmental Protection Management System, the Regulations on the Prevention and Control of Wastewater, Waste Gas, and Noise, the Environmental Supervision Management System, the Environmental Monitoring Management System, and the Management System for Environmental Protection Statistics. The Group comprehensively deepens the management of environmental matters, striving to reduce the negative impact of production and operation on the environment. During the reporting period, the Group did not incur any penalties due to environmental violations.

To systematically promote environmental management-related matters and continuously improve the Group's environmental performance, the Group has established a three-level environmental management system consisting of the Group headquarters, subsidiaries, and subsidiary business units, with environmental responsibilities implemented at all levels. The Safety and Environmental Protection Department of the Group serves as the responsible department, formulating and implementing environmental management systems and operating procedures for environmental equipment and facilities, addressing environmental protection issues and environmental safety hazards. Through monthly meetings, the Safety and Environmental Protection Department reviews and summarizes the focus of environmental work, ensuring the effective improvement of the Group's environmental compliance and environmental governance level. The general managers of each subsidiary are appointed as the first persons responsible for environmental protection, fully responsible for the subsidiary's environmental protection work, including formulating environmental protection strategies and supervising related risks and effectiveness. As of the end of 2023, three subsidiaries of the Group has obtained ISO 14001 environmental management system certificate and passed annual audits.

Environmental Management System Certificates of the Group

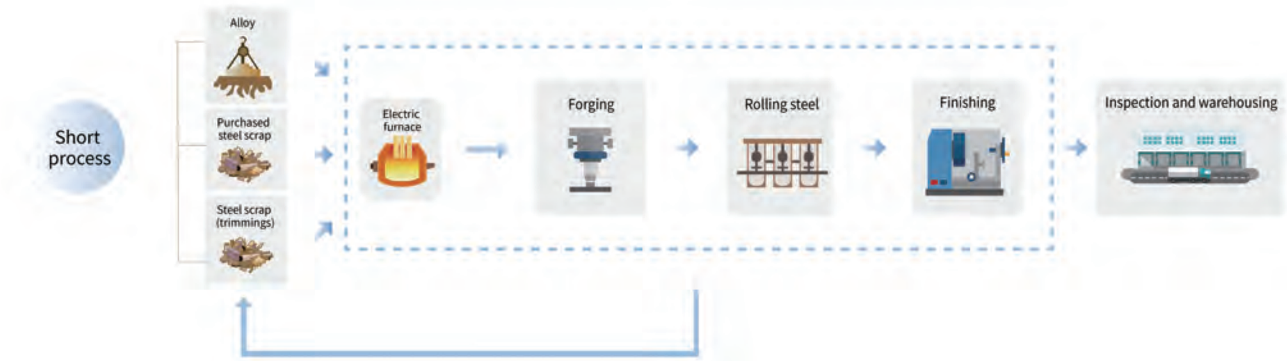
5.2 Resource Utilization

The Group, with efficient utilization and recycling of resources and energy as its core, adheres to the principles of "reduction, reuse, and recycling" to promote resource conservation, efficient utilization, and optimal economic benefits.

➢ *Scrap steel recycling*

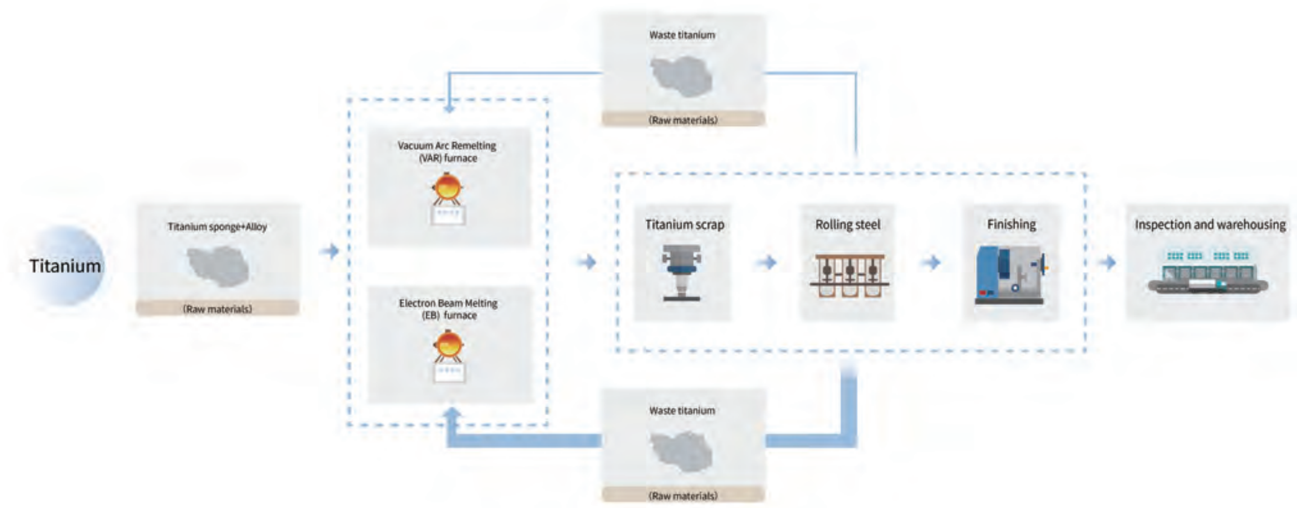
The carbon emissions of China's steel industry account for about 15% of the total carbon emissions in the nation, making it the manufacturing industry with the highest carbon emissions. Effectively utilizing scrap steel resources can reduce dependence on iron ore and reduce carbon emissions, which is one of the important ways to achieve the "Carbon Peak and Carbon Neutral" goal. The main raw materials in the smelting process of the Group are alloys and scrap steel. Among them, scrap steel mainly comes from the scrap steel materials generated during our production and processing process, as well as scrap steel purchased from downstream partners in the value chain. The recycling and reuse of scrap steel materials not only helps us control procurement costs, but also effectively reduces electricity consumption in the production process. In addition, the Group continuously innovates by adopting efficient furnace technology and short process smelting processes, shortening production cycles, and efficiently utilizing alloys and waste materials to produce high-quality materials. This simplified process not only optimizes the production process, but also reduces energy consumption and emissions, greatly improving resource utilization efficiency, reducing material processing losses, waste, and environmental pollution.

Long-process of Special Steel Manufacturing



The Group's Short-process of Special Steel Manufacturing with recycle mechanism

During the reporting period, the Group upgraded the smelting equipment used in the titanium alloy smelting process by adding new Electron Beam Melting (EB) furnace. Compared to the existing Vacuum Arc Remelting (VAR) furnace, the EB furnace does not require electrode preparation, can effectively remove impurities introduced by residual materials, and accepts a larger amount of titanium scrap as raw materials, thereby increasing the recycling amount of titanium scrap and achieving the maximization of resource recovery.



The Group's Titanium Alloy Manufacturing Process with recycle mechanism

➢ *Energy Management*

The Group advances energy management system construction to high standards, establishing regulations such as the "Energy Management Manual" and the "Energy Use Management Measures," setting annual energy consumption targets to promote overall energy consumption reduction. The Group has established a comprehensive energy management system, enhancing visual management of energy processes, monitoring power and auxiliary equipment, and factory energy consumption data. Through data analysis and forecasting, the Group optimizes energy-saving schemes to further enhance energy management efficiency. The Group plans to achieve reasonable control over total energy consumption by 2025, with industrial value-added energy consumption decreasing by over 10%. In addition, our subsidiaries have responded to the local government's requirements for energy efficiency management of enterprises in the region and set annual energy efficiency improvement targets for 2023, namely the energy consumption target per unit output value of 0.152 tons of standard coal/10000 yuan for Jiangsu Tiangong Aihe Technology Company Limited (formerly known as Tiangong Aihe Company Limited) ("TG Aihe") and 0.100 tons of standard coal/10000 yuan for TG Tools.

During the reporting period, the Group successfully passed the annual audit for ISO 50001 Energy Management System certificate.

Energy Management System Certificate of TG Tools

Rooftop Photovoltaics

The Group also actively promotes energy-saving renovation projects, achieving significant reductions in energy consumption:

- **Optimal operating conditions for air compressors:** Before the energy-saving transformation, the Group's compressed air energy consumption was 0.1247 kWh/m^3, which decreased to 0.0865 kWh/m^3 after the transformation.

- **"One-fire production"[1] project in the old continuous rolling workshop:** The traditional slide production method in the old continuous rolling workshop was replaced, eliminating a series of conventional processes such as continuous casting, rough rolling, hot rolling, and related heating and head cutting. Instead, finished products are directly rolled out from ingots in a single process. The successful implementation of the "one-fire production" transformation project significantly shortened the production process for slide products and greatly reduced energy consumption during production, including fuel, water, and electricity consumption.

- **Upgrade project for a 15-ton steam boiler:** The original boiler of the Group was a 15-ton natural gas steam boiler, which had a large coverage area, high energy consumption, and high losses. After the upgrade, the Group adopted three small hot water boilers and four steam generators to meet production and office life needs. In 2023, natural gas consumption decreased by 14.54% compared to the previous year, totaling 23,203,017 cubic meters.

➢ *Water Resource Management*

The Group prioritizes the conservation of water resources. Our objective is to improve water efficiency in production and operation, and reduce wastage of water resource, in order to achieve the rational use and recycling of water resources.

The Group cherishes and protects water resources, strictly adhering to laws and regulations such as the Water Law of the People's Republic of China and the Water Pollution Prevention and Control Law of the People's Republic of China, strengthening water resource management. All water resources for production and operations come from municipal water sources. To reduce water consumption, precise water meters are installed in all production workshops to accurately measure water usage, with strict control over water consumption during production and operations. The Group refines water-saving performance indicators, with a portion of cost reduction allocated as performance incentives to employees to motivate water-saving initiatives.

The Group actively promotes water recycling to increase the rate of water resource reuse. Through the introduction of professional technical equipment, industrial wastewater is treated at sewage treatment plants to meet reuse standards for recycling in processes such as cooling water; closed cooling tower equipment is used instead of open cooling facilities, with cooling water circulated internally to significantly reduce evaporation; devices such as reclaimed water treatment and rainwater collection are utilized to use treated water for ground flushing and workshop replenishment.

[1] One-fire production: In the process of metal melting and casting, by strictly controlling each link, a certain material or product can achieve the expected quality or state after a single processing or treatment process.

5.3 Pollution Control

The Group continues to strengthen pollution control efforts, aiming to reduce emissions of wastewater, waste gas, and solid waste pollutants.

➢ *Wastewater Management*

The Group established regulations such as the Sewage Treatment Measures and the Water Pollution Prevention and Control Management Regulations, strictly implemented regulatory agency and industry wastewater discharge standards, standardized wastewater treatment processes, and enhanced wastewater treatment facilities and technological upgrades. Through monitoring systems, pollutant emissions, water quality, and other indicators at discharge outlets were dynamically monitored, strengthening prevention of water pollution risks. Industrial wastewater and domestic sewage generated by the Group's production and operation were discharged into sewage treatment plants and discharged after meeting treatment standards. The Group set targets to Chemical Oxygen Demand and Nitrogen Oxides by more than 5% by 2025. During the reporting period, the Group's wastewater discharge met regulatory requirements.

➢ *Waste Gas Management*

The Group strictly adheres to regulations such as the Regulations on the Prevention and Control of Air, Water, and Noise Pollution and the Regulations on the Prevention and Control of Atmospheric Pollution, enforcing requirements such as the Air Pollutant Emission Standards for Steel Rolling and the Air Pollutant Emission Standards for Steelmaking to enhance the management of exhaust emissions. Emissions of nitrogen oxides, sulfur dioxide, particulate matter, and fluorides constitute the primary pollutants discharged by the Group. All smelting workshops are equipped with dust removal devices, ensuring emissions meet regulatory standards after treatment. Relevant emission data is interconnected with environmental protection authorities for real-time monitoring.

Through comprehensive control measures including source substitution, process control, and end-of-pipe treatment, the Group continuously reduce pollutant emissions to effectively prevent pollution incidents:

➢ Forging and steel rolling workshops have switched to using clean energy natural gas as fuel for heating furnaces, with exhaust gases collected and uniformly discharged.

➢ Workshop layouts are optimized, with isolation devices installed in dust-prone areas to minimize dust dispersion.

➢ All arc furnaces in the steelmaking workshop have been replaced with medium-frequency furnaces, significantly reducing exhaust emissions.

➢ *Waste Management*

Adhering to the principle of "reduce, reuse and recycle", our objective is to reduce the generation of waste, enhancing the utilization and recycling of waste, and striving to promote the construction of the "Waste-free City".

The Group strictly complies with local regulations on production and operation, implementing relevant management systems outlined in the "Waste Management Regulations" to rigorously manage waste emissions. Hazardous waste generated during production and maintenance processes such as waste emulsions, used lubricating oil, dust collected from dust collectors, waste dust filter bags, waste lead-acid batteries, oil rags, barium-containing waste, acid pickling sludge, etc., are collected centrally and stored in hazardous waste warehouses, then entrusted to third parties with disposal qualifications for treatment. Additionally, waste acid generated in the pickling workshop is neutralized and treated to meet standards before being reclaimed for circulation in the pickling workshop, reducing secondary pollution from the storage of hazardous waste. Non-hazardous waste such as household garbage and insulation waste are collected centrally and disposed of by qualified third parties.

➢ *Noise Management*

The Group formulated the Noise Pollution Prevention and Control Management Regulations, opting for low-noise equipment to minimize noise pollution. To address the issue of high noise levels from air compressors in the plant area, the Group employed centralized installation in enclosed rooms, transmitting compressed air to usage points over long distances to reduce noise pollution. Furthermore, the Group upgraded old equipment, procured advanced equipment to replace polluting and inefficient ones, and installed vibration damping pads and shock absorbers on certain equipment to reduce noise pollution.

5.4 Green Operation Practices

The Group standardizes the use of office equipment, turns on lights as needed, sets air conditioning temperatures according to regulations, and actively promotes the concept of green offices to foster a strong atmosphere of green office practices and low-carbon living among all employees.

➢ **Paperless office:** The Group actively promotes paperless office practices, completing the construction of production planning systems, MES systems, and the "Human Resources Management" system during the reporting period, and initiating the "Procurement Cloud" system, achieving comprehensive electronic and paperless business processes.

➢ **Electricity conservation:** The Group uses energy-saving lighting, installs energy storage photovoltaic panels to provide power for nighttime lighting; strictly controls air conditioning temperatures, with the central air conditioning set to 26°C indoors and requiring activation only when the outdoor temperature reaches 32°C in summer and below 5°C in winter; computers are required to be turned off when not in use, and lights in administrative departments, restrooms, stairwells, and other public areas are turned off when not in use.

5.5 Addressing Climate Change

The Group actively responds to the challenges and opportunities brought by climate change, managing and disclosing climate-related information. Considering its business characteristics and development strategy, the Group identifies and analyzes the short-term, medium-term, and long-term climate change risks and opportunities, as well as their potential impacts on the Group's transmission pathways.

➢ *Climate Change Governance*

The Group attaches great importance to climate risk governance, relying on an ESG governance system led by the board of directors to supervise and manage climate-related risks.

➢ *Climate Change Risks and Opportunities*

Through policy research, benchmarking with peers, and expert opinions, the Group identifies climate change-related risks and opportunities relevant to our operations and assess their impact on our finances. In the future, the Group will further improve the mechanism for managing climate change risks to enhance its adaptability to climate change.

Type	Risk Category	Risk Description	Potential Financial Impact	Management Measures
Transition Risk	Policy and Legal	**ESG Regulation and Guidelines Changes:** Changes in current climate-related regulatory requirements, with a trend towards stricter climate policies by the government (e.g., transitioning from energy consumption control to carbon emission control policies). The Group may face stricter requirements for sustainable management.	Increased compliance costs; increased operational costs	Continuously monitor government ESG policies and regulatory trends, and promptly respond to policy changes.
	Technology	**Product and Technology Substitution:** There are technological barriers to low-carbon technology. If specific low-carbon technologies are not promptly developed, it may bring certain negative risks to the enterprise's operations and business.	Decreased operating income	Increase investment in technology research and development, systematically carry out research on low-carbon technologies.
		Research and Development Investment: To meet market demand for low-carbon products and technologies, the Group will increase research and development investment. However, there may be risks of research and development progress falling below expectations.	Increased operating costs	Optimize research and development strategies, strengthen the layout of core technical talents, and enhance research and development capabilities.
	Market	**Changes in Customer Demand:** With increasing customer emphasis on climate change risks and opportunities, the supply-demand structure of certain products and services may undergo transformation.	Decreased operating income	Actively adapt to market changes, develop a diversified product development strategy to meet various consumer demands.
		Increase in Input Costs: To cope with stricter environmental and carbon emission regulations, partners need to undergo adaptive transformation and upgrades, leading to increased costs in the supply of products.	Increased operating costs	Reduce reliance on a single supplier, seek and develop alternative materials.
	Reputation	**Brand Image:** In the current market environment and with the attention of various stakeholders, if the Group fails to adequately demonstrate its ability to address climate change and showcase its practical achievements, and enhance transparency of climate-related information, it may face the risk of damage to its brand image.	Increased operating costs	Actively promote carbon reduction efforts throughout the product life cycle and supply chain, disclose climate-related information, and enhance brand resilience and reputation.

Type	Risk Category	Risk Description	Potential Financial Impact	Management Measures
Physical Risk	Acute	**Extreme Weather Events and Natural Disasters:** Frequent occurrences of extreme weather events such as heavy rain, hailstorms, thunderstorms, etc., with increasingly severe impacts, may endanger the safety of employees and physical assets of the Group. They may also lead to supply chain disruptions and hinder production.	Increased operating costs.	Strengthen climate warning and forecasting, develop contingency plans, enhance the ability to respond to extreme weather events; establish safety stock and gradually develop in-house capabilities for component manufacturing.
	Chronic	**Continued Increase in Global Temperatures:** Long-term changes in natural patterns such as rising sea levels and persistent high temperatures may affect the Group's normal production.	Increased operating costs	Develop emergency management plans tailored to extreme natural disasters.

Type	Opportunity Description	Potential Financial Impact	Management Measures
Energy Efficiency Improvement	By improving the efficiency of resource and energy utilization (such as minerals and energy), it's possible to achieve energy savings, carbon reduction, and lower operating costs.	Decrease in operating costs	Conduct training and promotion to enhance energy-saving and low-carbon awareness.
Green and Low-Carbon Products	Developing new types of low-carbon emission products can enhance the company's competitive position and benefit from the shift in customer and manufacturer preferences towards low-carbon options.	Increased operating income	Increase investment in technology research and development, systematically carry out research on low-carbon technologies.

➢ *Greenhouse Gas Emission Indicators*

The Group actively explores carbon reduction paths and is committed to improving energy efficiency and reducing greenhouse gas emissions. Please refer to the table below for the greenhouse gas emission data of the Group:

Indicator Name	Unit	2023	2022	2021
Greenhouse Gas Emissions (Scope 1)	Tons of CO_2 Equivalent	**60,614.62**	63,111.95	91,041.10
Greenhouse Gas Emissions (Scope 2)	Tons of CO_2 Equivalent	**276,626.93**	341,756.66	396,303.89
Total Greenhouse Gas Emissions (Scope 1+Scope 2)	Tons of CO_2 Equivalent	**337,241.55**	404,786.32	489,353.74
Greenhouse Gas Emission Intensity (Scope 1+Scope 2)	Tons of CO_2 Equivalent per RMB10,000 of revenue	**0.65**	0.80	0.85

6 Promoting Lean Manufacturing

The Group upholds the principles of innovation leadership and quality excellence, and has established a comprehensive mechanism for technological innovation and quality management. In terms of technological innovation, the Group has developed a series of management systems to ensure the transformation and application of internal innovation achievements. Regarding quality management, the Group is market-oriented and has established a strict product quality control system to ensure that every aspect, from raw materials to finished products, meets high-quality standards to meet the increasingly diverse needs of our customers.

6.1 Encouraging Research and Development (R&D) Innovation

The Group is committed to technological innovation and development, establishing a systematic management framework of hierarchical management, evaluation, and rewards. The Group has formulated a series of technological innovation-related systems and management methods to stimulate employees' innovative potential and promote the application and transformation of technological innovation achievements. During the reporting period, the Group invested over RMB300 million in research and development, exceeding 6% of the total annual revenue.

➢ *R&D Innovation Team*

The Group established a comprehensive management committee for technological innovation, including review committees and innovation groups, forming a hierarchical management, evaluation, and rewards framework. Various systems and methods related to technological innovation were developed, such as the Tiangong International Technology Innovation Management Measures, "Tiangong International Research Project Management Regulations, Rationalization Proposal Management System, and Project Achievement Reward Management System. These systems and methods clarified and standardized the process and requirements of technological innovation activities, as well as the submission, review, implementation, and reward mechanisms for related innovative achievements. This facilitated the application and transformation of internal technological innovation achievements and stimulated employees' enthusiasm for innovation.

Case: Held the Annual Summary and Commendation Meeting of Science and Technology Innovation Work

For 16 consecutive years, the Group has held an annual summary and commendation meeting for science and technology innovation work to recognize groups and individuals who have achieved outstanding results and performance in science and technology innovation work, in order to encourage advanced groups and individuals in science and technology innovation and create an atmosphere of innovation for all staff. During the reporting period, the Group selected a total of 67 group and individual innovation projects for the Science and Technology Innovation Award.

➢ *R&D Innovations*

During the reporting period, the Group made significant progress in new product research and development. The Group successfully developed multiple grades of powder steel wire, high-wear-resistant and corrosion-resistant die steel, and powder stainless steel modules. These products meet international advanced quality standards and have been widely used in high-end molds, aerospace components, and cutting tools. Additionally, the Group accelerated the promotion of titanium alloy products and successfully developed a series of hard alloy cutting tool products, further expanding their application scope in electronic molds, alloy steel, and other cutting processing fields. Our newly developed stainless steel special taps and other products have also successfully entered higher-end application scenarios, indicating that our tap products are gradually transitioning from general to specialized processing.

Case: Development of Large-Scale Automotive Lamp Mold Steel Modules

In response to the initiation of the Group's 7,000-ton fast-forging project and to seek a competitive advantage in the domestic and international large-scale mold steel market, the Group actively developed the TGE11 product, a large-scale mold steel module for automotive lamp use. Representing high-heat-resistant hot work mold steel, this mold steel not only possesses excellent toughness and ductility in all aspects but also boasts outstanding heat resistance, high-temperature toughness, excellent heat fatigue resistance performance, and wear resistance. Its unique performance allows TGE11 to perform stably in high-demand industrial environments. Furthermore, TGE11 mold steel exhibits excellent polishing performance, suitable for high-quality polishing and carving molds, such as automotive lamp molds, thereby presenting broad market prospects.

➢ *School-Enterprise Cooperation*

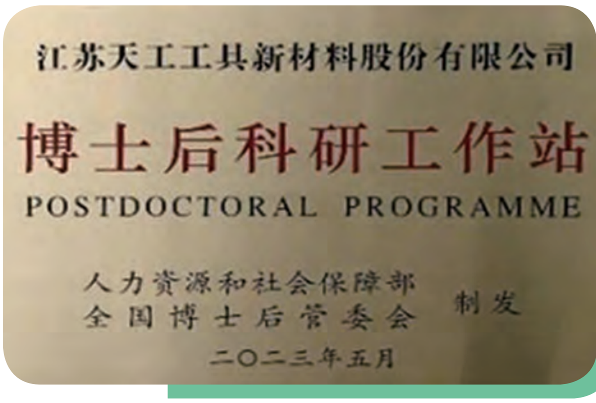
The Group actively deepens cooperation between industry, academia, and research. The Group has collaborated on technical research with several renowned universities and research institutions, including Shanghai Jiao Tong University, Ocean Equipment Research Institute of Jiangsu University of Science and Technology, and Nanjing Tech University, focusing on the research and innovation of special steels, cutting tools, titanium materials, and other products. During the reporting period, the Group also collaborated with institutions such as the Jiangsu Provincial Engineering Technology Research Center and Jiangsu Provincial Engineering Research Center to establish multiple research platforms, providing strong support and guarantees for technological innovation and product development.

Case: Establishment of "Tiangong Class" to Achieve Industry-Education Integration

On March 14, 2023, the Group signed a joint training agreement with Jiangsu Agri-Forestry Vocational College to establish the "Tiangong Class." Students enrolled in the "Tiangong Class" are assigned a clear job placement upon graduation, with joint training provided by both the college and the Group. This model fully leverages the strengths of both the educational institution and the enterprise, allowing for the alternation of work and study, and embodies the concept of collaborative construction, sharing, and nurturing in vocational education development.

Signing Ceremony for Project Cooperation Between
The Group and Various Universities

The Group has set up a post-doctoral research station in Jiangsu Province since 2009 and successfully upgraded it to the national level during the reporting period. There are currently two post-doctoral researchers, who are dedicated to the research on topics such as hot work die steel process and integrated die casting die steel.



Postdoctoral Research Station of TG Tools

6.2 Intellectual Property Protection

The Group attaches great importance to intellectual property protection. The Group strictly complies with relevant laws and regulations such as the People's Republic of China Intellectual Property Protection Law and the People's Republic of China Trademark Law. The Group established systems and methods such as the Tiangong International Technology Innovation Management Measures and the Rationalization Proposal Management System, which clarify the management responsibilities of copyrights, trademarks, patents, and property rights, as well as the process for handling related infringement incidents. Additionally, the Group formed a special intellectual property protection working group and engaged professional law firms as permanent legal advisors.

Furthermore, to enhance employees' awareness of intellectual property protection, the Group regularly conducts intellectual property training to ensure strict compliance with relevant laws, regulations, and company policies in employees' business activities, thus avoiding infringement of others' rights. During the reporting period, the Group submitted applications for 69 patents, including 12 invention patents and 57 utility model patents, and obtained authorization for 61 patents. By the end of 2023, the Group had accumulated 263 patents.

6.3 Lean Quality Control

The Group's core mission is to provide customers with excellent quality products and services, focusing on the meticulous crafting of steel and strictly adhering to market standards, and is always committed to improving product quality and service levels. The Group strictly adheres to laws and regulations related to product liability, including the People's Republic of China Product Quality Law. At the same time, the Group has established a series of product quality control systems, including the New Product Development Management Procedure, the In-House Non-Conforming Product Control Procedure, the Enterprise Measurement Management Regulations, the Raw Material Management Methods, the Steel Acceptance Criteria, and the Quality Process Control Plan, to standardize every aspect of product development and production, ensuring comprehensive quality control from raw material entry to product delivery.

To ensure the excellence and stability of product quality, the Group implements a comprehensive quality management system covering the entire lifecycle of products from research and development to after-sales service. The Group strictly follows the requirements of GBT 19001-2016/ISO 9001:2015 Quality Management System Requirements and has established and implemented rigorous product quality control systems and processes. Additionally, the Group manages product quality according to the standards of GB/T 19022-2003/ISO 10012:2003 Measurement Management System — Requirements for Measurement Processes and Measuring Equipment. During the reporting period, the Group has completed and passed third-party quality management system annual audits.

Quality Management System Certificates of the Group

In addition, the Group is committed to optimizing innovative steelmaking processes and actively investing in advanced quality inspection equipment to ensure product quality meets standards and to avoid potential health and safety hazards. During the reporting period, the Group did not experience any product recalls due to quality and safety issues.

Product Quality Management Measures	
Research and Development of Innovative Steelmaking Processes • Sampling and testing of raw materials • Physical and chemical testing of semi-finished products at each production stage • Specialized quality testing of finished products	Application of Advanced Quality Inspection Equipment • EVO-MA25 Carl Zeiss scanning electron microscope • Infrared carbon and sulfur analyzer • Direct reading spectrometer • Carl Zeiss metallographic microscope • MTS universal material testing machine • Digital Rockwell hardness tester

Case: Protective Sleeve Casting Process Enhances the Quality of Ultra-Premium Steel

As the Group's various products gradually enter the high-end market, this shift imposes higher requirements on the cleanliness and processing performance of molten steel, especially for ultra-premium steel grades like TGGP13. During the casting process, contact between molten steel and air can lead to secondary oxidation, severely affecting the cleanliness of the molten steel. To significantly improve the toughness and processability of these steel grades, it is imperative to minimize the content of oxygen (O) and nitrogen (N) in the molten steel. To address this issue, our engineering team conducted in-depth research on the working principle of the submerged entry nozzle in continuous casting and creatively introduced the protective sleeve technology. By installing protective sleeves below the nozzle, the Group successfully isolated the contact between molten steel and air, effectively preventing the secondary oxidation of molten steel.

Employee Training on Quality System

The Group conducts regular quality-related training and assessments, organizing quality training for personnel in the technical department and smelting workshop. This includes detailed explanations of quality issues and inviting third-party quality organizations to provide on-site lectures, aiming to enhance employees' quality awareness and skills. Additionally, the Group implements a comprehensive assessment system, rigorously evaluating production personnel and inspectors in all processes to ensure compliance with quality standards. During the reporting period, the Group was honored with the "Quality Month" Excellence Award from Milwaukee in 2023.

6.4 Safeguarding Customer Rights

➢ *Customer Feedback Channels*

The Group established long-term and stable cooperative relationships with customers by deeply exploring the market through our sales team, promptly identifying market gaps and customer needs. Leveraging our strong development capabilities, the Group achieved customized development to accurately respond to customer demands.

Case: Tiangong International 2023 Annual Global Customer Conference

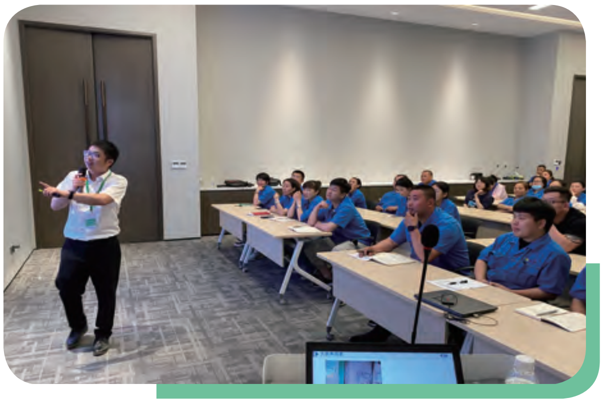
During the reporting period, our global customer annual conference attracted nearly 600 participants, including customers, industry experts, and suppliers, from over 30 countries and regions worldwide. Board Chairman Zhu Xiaokun spoke at the annual meeting, reviewing the Group's achievements over the past three years, including the construction of the Thailand factory, the development of digital platforms and breakthroughs in key technologies, and looking forward to future development plans, including product mix improvement, global layout, equipment upgrading, digitalization, technological innovations and the introduction of talents. Furthermore, attendees were invited to visit our production sites, deepening their understanding and trust in our products and brand.

The Group consistently prioritizes customer feedback as a vital reference for continuously improving product quality. The Group strictly adheres to relevant laws and regulations such as the Consumer Rights Protection Law of the People's Republic of China and has established documents like the After-Sales Service Management System to standardize the specific process of handling customer complaints, ensuring their proper resolution.

The Group established a comprehensive online customer service system for efficient data entry and real-time collection of quality feedback. Moreover, through our operational OA customer service platform, customer complaint handling shifted from manual offline follow-up to online approval, significantly reducing processing time. Additionally, the Group conducted annual customer satisfaction surveys to gather opinions and suggestions regarding our products and services. In 2023, customer satisfaction reached 93.1%. Throughout the reporting period, the Group received a total of 69 customer complaints, all of which were appropriately addressed.

➢ *Customer Empowerment and Co-Construction*

Our clients conduct regular audits of the Group's ESG management and performance, covering various dimensions such as human rights and labor management, work safety, climate change, environmental management, etc., and make recommendations for improvement. Through client training and empowerment, the Group's ESG performance has been continuously improved.



Clients Providing ESG Training

➢ *Responsible Marketing*

The Group strictly adheres to the Advertising Law of the People's Republic of China, consistently striving to provide customers with truthful and reliable information while firmly eliminating any fraudulent behavior. To ensure the accuracy of promotional materials and website content, the Group conducts rigorous reviews before external release, ensuring that the products or technologies mentioned do not infringe upon any rights, and actively work to maintain a favorable corporate image and market order.

Clients Explaining Carbon Border Adjustment Mechanism ("CBAM")

7 Upholding Safety Standards

The Group recognizes that ensuring the safety and health of employees is essential for sustainable and robust development. The Group consistently prioritizes production safety and employee health, focusing on both physical and mental well-being. The Group enhances employees' safety awareness and skills, striving to create a safe working environment.

7.1 Responsibility for Safety

The Group always prioritizes production safety and employee health, aiming to create a work and living environment that ensures employee safety. The Group has established a comprehensive safety production management system, clearly defining the safety production responsibilities of leaders at all levels, functional departments, engineering and technical personnel, and operational staff. Under the leadership of the general manager, the Safety and Environmental Protection Department is responsible for the specific management of safety production. They organize and assist relevant departments in formulating or revising safety production regulations and technical operation procedures, propose measures to prevent accidents, and supervise and inspect occupational health management.

The Group strictly adheres to the laws and regulations of the People's Republic of China, such as the Safety Production Law, the Law on Prevention and Control of Occupational Diseases, Interim Provisions on Occupational Health Supervision and Management in the Workplace and Management Measures for Occupational Disease Diagnosis and Identification. The Group has established a series of comprehensive safety production management systems, including the Tiangong International Occupational Health Management System, Special Operation Safety Management System, Employee Work Injury Insurance and Safety Production Responsibility Insurance Management System, and Safety Production Reward and Punishment Management System. These systems detail the requirements and measures for safety production and occupational health management, effectively preventing safety risks and ensuring the life safety and physical health of employees during production.

Several subsidiaries of the Company have obtained the GB/T 45001-2020/ISO 45001:2018 Occupational Health and Safety Management System certificate, and have passed the annual audits during the reporting period.

Occupational Health and Safety Management System Certificate of TG Aihe

7.2 Strengthening Safety Management

To reduce or eliminate potential risks in the production safety process, the Group formulated the Hazard Identification and Hierarchical Control Management System. This system required relevant responsible departments to comprehensively identify, classify, and evaluate health and safety hazard factors in production activities, equipment, raw materials, safety protection, processes, and other activities. It mandated the implementation of corresponding control management and the taking of targeted preventive measures to effectively prevent major production safety accidents. In the past three years, the Group has not experienced any work-related fatalities.

Table: Safety Risk Level Determination Criteria and Control Measures

Risk Level	Actions/Control Measures to be Taken	Implementation Deadline
Level A (Red)	Operations cannot continue until measures have been taken to reduce harm, and improvement measures must be evaluated.	Immediate rectification
Level B (Orange)	Take emergency measures to reduce risk, timely rectify and establish operational control procedures, and conduct regular checks, measurements, and evaluations.	Immediate or timed rectification
Level C (Yellow)	Take measures for timely rectification, strengthen training and communication according to operating procedures.	Rectification by a specified deadline
Level D (Blue)	Consider establishing operating procedures, work instructions, etc., but regular checks and records must be maintained.	Rectification by a specified deadline

In terms of hazard identification and management, the Group implements both regular and irregular inspection systems. The principal responsible persons of each department (workshop) bear full responsibility for the accident investigation and remediation work within their departments. During the inspection process, safety checklists are strictly used, covering all production and business premises, environments, personnel, equipment, and activities. For the hazards identified during inspections, each department (workshop) conducts an analysis and evaluation, determines the hazard level, and registers and files the information. The safety and environmental departments then verify the rectification measures and evaluate their effectiveness to ensure that the hazards are completely eliminated. For accidents caused by ineffective accident investigation and management, the Group strictly holds the responsible persons accountable.

The Group also dedicated safety officers in the production workshops, responsible for conducting safety inspections, supervising and inspecting compliance with safety production requirements such as employee protective measures, and ensuring that production violations are corrected in a timely manner.

Furthermore, the Group conducts a series of safety production inspection activities annually, including quarterly group-level safety inspections, monthly workshop safety meetings, and daily safety briefings and summaries for each team. The Group also hold departmental meetings quarterly to review and discuss safety production and education work during the quarter, continually reviewing and optimizing the Group's safety production environment. During the reporting period, the Group conducted a special safety inspection for fire prevention, comprehensively identifying and rectifying potential safety hazards related to fire.

7.3 Ensuring Occupational Health

The Group strictly adheres to the Occupational Health and Safety Management System and the Technical Specifications for Occupational Health Supervision. The Group organizes annual occupational health examinations for all employees on duty to ensure their occupational health is effectively protected. For newly hired employees or those transferring to positions with occupational hazards (such as exposure to noise, high temperatures, dust, and other risk positions) and employees engaged in jobs with special health requirements, the Group informs them of the related risks in advance. The Group organizes occupational health examinations before these employees start their duties, strictly implement safety protections, and comprehensively safeguard their health and safety. If occupational hazard factors exceeding standard limits are discovered during production or equipment maintenance, the Group shall immediately make rectifications to prevent health risks.

7.4 Creating a Safety Culture

To enhance employees' safety awareness and skills, the Group conducts comprehensive safety education and training on production safety. The Group established the Safety Education System to provide clear, systematic regulations for safety production training. Additionally, before officially assuming their duties, employees must sign the Safety Production Commitment Letter to ensure every employee understands and is familiar with the Group's safety management requirements.

For all new employees, the Group implements a strict "three-level" safety education system at the Group, workshop, and team levels. The training covers various aspects, including safety production knowledge, occupational hazard prevention and treatment, and emergency response to accidents. Employees are only allowed to take up their positions after passing an assessment.

Training Level	Training Content
The Group Level	Safety production laws and regulations, safety production rules and regulations, occupational hazard prevention and control, emergency rescue methods, etc.
Workshop Level	Workshop production rules and regulations, introduction to machinery and equipment, accident prevention measures, etc.
Team Level	Safety technical operation procedures for positions, safety production protection facilities, methods for using personal protective equipment, accident cases, etc.

Three-level Safety Education Training for New Employees

Every year, the Group organizes all employees to participate in a refresher course on safety production. The training covers new laws, regulations, standards, and norms related to safety production, as well as the safety technical requirements of new materials, new technologies, new processes, and new equipment, along with the analysis and discussion of typical accident cases. Additionally, the Group holds safety technology classes, utilizing various forms such as exhibitions, propaganda paintings, safety columns, newspapers and magazines, and special knowledge lectures to create a corporate environment conducive to safety production.

The Group Collaborates with Zhenjiang City First People's Hospital to Conduct the "Emergency First Aid" Activity

Emergency Evacuation Drill for Fire Accidents in the Round Steel Finishing Workshop

To ensure employee safety, the Group developed an emergency response plan for production safety accidents and regularly conducted emergency drills for unexpected incidents, summarizing and evaluating the effectiveness of these drills to ensure a rapid and effective response when incidents occurred. During the reporting period, the Group organized employees from the round steel finishing workshop and the 1300T workshop to participate in fire accident evacuation and emergency rescue drills, continuously enhancing the fire safety awareness and self-rescue skills of our employees.

Case: Specialized Training on Employee Safety Production

In October 2023, the Group held its monthly safety production meeting. It emphasized measures related to the prevention of electrical fires and electrocution accidents and designated fire safety and electrical safety as key inspection items in safety production. Issues identified during the comprehensive safety inspection conducted before the holiday were rectified one by one to form a closed-loop management. The meeting also included safety responsibility and skill training for new employees, followed by on-site assessments.

8 Building an Exceptional Team

The Group firmly believes that the achievements in corporate development are inseparable from every employee's hard work and selfless dedication. Adhering to a people-oriented corporate culture, The Group is committed to attracting and retaining outstanding talents in the industry, aiming to build an exceptional team.

8.1 Compliant and Equal Employment

The Group strictly implements laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Regulations Prohibiting the Use of Child Labor, establishing and improving human resource management systems like the Employment Management and Employee Rights Protection Regulations, the Recruitment Procedures, the Employee Resignation Management Methods, and the Anti-Discrimination, Abuse, and Harassment Management Regulations. These ensure the standardization and transparency of recruitment, resignation, and dismissal processes, fully protecting employee rights. The Group adheres to the principles of "openness, equality, competition, merit-based selection, and voluntariness," practicing an equal and inclusive employment policy. The Group ensures that employees enjoy rights such as freedom of association and are committed to creating a diverse and inclusive work environment. The Group firmly opposes employment discrimination based on race, nationality, age, or gender, ensuring that every applicant, regardless of their background, has equal employment opportunities.

To prevent the misuse of child labor and minors, the Group has specifically formulated the Child Labor and Minor Worker Management Regulations, strictly verifying the age information of applicants. All employees have to provide valid identification before joining to ensure that there is no child labor or employment of minors. If a minor is mistakenly hired, the Group will immediately terminate the employment relationship and pursue related responsibilities. The Group is staunchly against any form of forced labor, having established the Prevention of Involuntary Labor Management Regulations to ensure applicants joined voluntarily. Furthermore, the Group pays close attention to employee working hours; the labor contract specifies that the daily working hours should not exceed eight hours, and the average weekly working hours should not exceed forty hours. Overtime work requires prior application to superiors. During the reporting period, there were no instances of child labor or forced labor in the Group.

8.2 Enhancing Compensation and Benefits

The Group has developed a series of compensation management systems, including the Administrative Management Position Compensation Management Regulations, the Technical and Management Position Compensation Management Regulations, and the Regulations on Standards and Management of Subsidies for Education and Professional Titles, establishing an attractive compensation and benefits system. The Group bases our evaluation on individual actual ability and work performance, conducting annual comprehensive assessments of employees from three dimensions: self-assessment, peer review, and supervisor evaluation. The results serve as an important basis for employee salary adjustments. Additionally, the Group has formulated the Management Measures for Comprehensive Improvement of Material Yield, closely linking employee wages with the assessment results of the finished product yield rate, moving away from the past practice of paying solely based on quantity, thereby stimulating employee enthusiasm for work.

The Group strictly complies with national legal requirements to pay various types of social insurance for employees, including basic pension insurance, basic medical insurance, maternity insurance, work-related injury insurance, unemployment insurance, and housing provident fund, and ensure that every employee can enjoy legally stipulated statutory and other paid leave.

8.3 Facilitating Career Development

➢ *Clarifying Promotion Channels*

The Group plans clear career development paths for employees, ensuring fair, just, and transparent promotion opportunities to motivate employees to continuously improve their overall quality, fully realize their potential, and achieve mutual growth of both the enterprise and employees.

In terms of employee development and promotion, the Group has formulated and implemented the Promotion Management Regulations, promoting a diversified career development path covering all positions, attracting and motivating talents from different fields to realize their personal value. The Group is committed to discovering and cultivating outstanding talents from the junior level. After new employees join, the Group allocates positions scientifically and rationally based on their personal interests and professional backgrounds. For management and technical positions, the Group has clear and specific promotion channels. Employees working at the production front could gradually be promoted to factory manager through continuous effort and experience accumulation; meanwhile, management position employees could start from basic management positions and, through systematic training and practical work, gradually be promoted to general manager level. Additionally, the Group implements a job rotation system aimed at developing elite talents with comprehensive management skills through training in different positions, thereby providing employees with broader career development opportunities.

➢ *Uncovering Employee Potential*

The Group places a high value on employee training and education, having established the Training Management Procedure aimed at continuously enhancing employees' comprehensive qualities and personal abilities through diverse training offerings. At the beginning of each year, the Group formulates an annual employee training plan, arranging different training content and related assessments according to the various job responsibilities. After joining, new employees are required to undergo three levels of training: group, department, and team, to fully understand the Group's corporate culture, regulations, social responsibilities, fire safety, occupational health, and other knowledge areas. They are also provided with specialized skill training and assessments according to the specific nature of their positions, ensuring they truly understand and master the training content. Moreover, the Group continuously improves the standards for academic and professional title subsidies, motivating all employees to further their education and obtain professional titles relevant to their positions.

Additionally, the Group has formulated the Provisional Measures for Mentorship, implementing a "one-to-one" mentorship system to cultivate talent for key technical positions. Experienced employees serve as "mentors," imparting work experience and methods to new employees, or "mentees," through a system of teaching, helping, and guiding. The Provisional Measures for Mentorship also specify the qualifications for mentors, the establishment of mentor-mentee relationships, and the responsibilities of both parties. The system includes a reward mechanism, recognizing and commending outstanding mentors and new employees, encouraging active participation.

8.4 Building a Warm Workplace

➢ *Democratic Communication*

To ensure employees' needs are met with timely and effective responses, the Group utilizes a variety of communication channels, including regular meetings, employee suggestion boxes, emails, and the annual Workers' Representative Conference. The Group required all production and administrative units to hold monthly employee meetings to listen to employees' suggestions, exchange information on work situations, and share feedback. The Group conducts annual employee satisfaction surveys. During the reporting period, the Group's employee satisfaction was 93%.

Case: The Third Workers' Representative Conference of Tiangong International

In April 2023, the Group held the Third Workers' Representative Conference. Mr. Wu Suojun, the General Manager of TG Tools delivered a detailed work report, and Mr. Yan Ronghua, the Chairman of Labor Union made a report on the work of the labor union, which was considered and adopted by the delegates of the plenary session. All the delegates of the meeting put forward suggestions and opinions on the company's development, staff salary reform, management capacity enhancement, cost reduction, technological innovation and people's livelihood.

➢ *Caring for Employees*

The Group provides employees with a variety of additional benefits, including work meals, regular health check-ups, purchasing extra "critical illness insurance" commercial insurance, special reward funds for children of employees who are admitted to prestigious schools, holiday benefits, Spring Festival travel subsidies, and travel benefits. On International Women's Day, the Group arranges a half-day paid leave and welfare allowance for female employees to show respect and care. On their birthdays, each employee receives a birthday cake, bringing warmth amidst their busy schedules. For nursing female employees, the Group offers 1 hour of paid rest daily, and male employees also enjoy paid leave during paternity leave. In the hot summer, the Group effectively mitigates the risk of heatstroke in the production workshop, and prepare "heatstroke prevention gift packs" for the frontline staff.

The Mother and Baby Unit
of the Group

"Cool off in Summer" Activity

The Group's union also has a support mechanism, serving as a strong backing for employees, always focusing on and helping to address the needs of employees in difficulty. The Group has established a Serious Illness Employee Aid Foundation, providing basic wage subsidies to employees with illnesses and special subsidies to those with serious illnesses. During the reporting period, the fund assisted 11 people in total, with a cumulative assistance amount of RMB78,000.

Additionally, the Group also has a staff canteen. The canteen staffs have regular physical examinations and all hold health certificates to work. The main ingredients of the canteen are produced by the Group itself, and the tableware is disinfected every meal to ensure food safety and hygiene. The dishes are comprehensive and rich, which fully guarantees the nutrition and health of employees.

Special Reward Ceremony for Employees' Children Admitted to Prestigious Schools

➢ *Diverse Activities*

The Group is committed to enhancing the work atmosphere and team culture through a variety of cultural and sports activities, enriching employees' leisure lives while increasing their sense of happiness and belonging. The Group regularly holds staff games every two years, and organizes competitions, including basketball, calligraphy, badminton, etc., every year in order to promote teamwork and collaboration among our staffs. Additionally, the Group encourages employees to organize clubs and regularly hold various cultural activities to strengthen connections and communication among employees.

The 11th Staff Games of the Group

The First "Youth Cup" Men's Basketball Game of the Group

Young Talent Mid-Autumn Festival Networking Event 2023

The Year-End Closing Conference

9 Practicing Responsible Procurement

For the Group, the supply chain is not only about the quality and stable supply of raw materials but also about establishing long-term stable relationships with high-quality suppliers. Therefore, the Group is committed to ensuring the robustness, efficiency, and sustainability of our supply chain through strict supplier management regulations and ESG risk control measures.

9.1 Supply Chain Compliance Management

The Group strictly adheres to laws and regulations such as the Tendering and Bidding Law of the People's Republic of China and the Contract Law of the People's Republic of China, and has formulated the Supplier Management Regulations, the Regulations on Standardizing the Procurement and Price Accounting of Supplies, the Tender Work Management Regulations, the Procurement Management Regulations and Implementation Details (Trial Version), and other management systems to strengthen the supervision and management of procurement work, ensuring the fairness, justice, and transparency of tendering and procurement activities.

The Group established a comprehensive qualified supplier mechanism, setting clear requirements for the service qualifications and capabilities of all raw and auxiliary material and equipment suppliers, ensuring the quality and stability of raw material supply. The Group evaluates suppliers annually according to plan during the contract period, assessing product quality, service efficiency, after-sales support, management level, environmental management, and social performance, and strictly screens for major violations. Suppliers failing the evaluation will have their cooperation temporarily suspended and are required to rectify until they pass the evaluation. For suppliers that do not meet the evaluation criteria, the Group actively takes corrective guidance measures, help suppliers develop corrective action plans, and monitor and evaluate the effectiveness of these measures in real time, striving to prevent similar issues from reoccurring. During the reporting period, the Group had a total of 183 strategic suppliers, including 260 A-category suppliers and 42 B-categor suppliers[2].

Training on Trade and Supply Chain Security

2 Strategic suppliers: Suppliers that provide key materials, including raw materials and large-quantity auxiliary materials; A-category suppliers: Suppliers that provide secondary materials, including small-quantity auxiliary materials and parts; B-category suppliers: Suppliers that provide auxiliary materials, parts with small purchasing volumes, and low-frequency accessories.

9.2 Supply Chain ESG Risk Management

The Group's Supply Chain Management System likewise specifies the requirements for suppliers' environmental management and premises safety in the supplier evaluation process. In advocating for green procurement, the Group gives priority to local suppliers to reduce waste emissions during the supply chain transportation process. In promoting transparent procurement, the Group requires all suppliers to sign the Supplier Integrity and Honesty Commitment, ensuring that during the cooperation process, suppliers strictly adhere to principles of integrity and honesty, jointly creating an atmosphere of sincere cooperation. Regarding conflict mineral management, the Group verifies the origin certificates of raw materials annually. During the reporting period, the Group did not purchase raw materials from conflict mineral regions. Additionally, the Group strictly manages human rights risks in the supply chain; if a supplier is found to be engaging in illegal activities such as employing child labor or forced labor, the Group will immediately terminate the cooperation.

10 Giving Back to Society and Improving Livelihoods

The Group is committed to leveraging its resources and industry advantages to foster positive community relations and support public welfare and rural revitalization. Over the years, the Group has continuously contributed to rural education assistance and support for the disadvantaged. During reporting period, the Group was awarded the title of "Most Caring Charitable Donation Enterprise" by the People's Government of Zhenjiang City, Jiangsu Province.

10.1 Supporting Rural Revitalization

Based on regional characteristics and market demands, the Group guides resources for the long-term development of rural areas. The Group increased villagers' income through consumer assistance and donations to farmers, effectively addressing the actual problems of rural areas and contributing to the modernization of villages.

Case: Targeted Procurement to Support Farmers

In Jinshan Village, Jurong City, Zhenjiang, Jiangsu Province, where there is a significant number of impoverished and disabled individuals, life is relatively difficult. To assist the local villagers, the Group specifically purchased peanuts grown by the villagers and provided guidance on crafting wooden boxes and paper cartons for packaging, which the Group repurchased as finished products. With the help of the Group, Jinshan Village established a production and sales linkage, enabling a continuous and stable increase in the villagers' income.

10.2 Engaging in Public Welfare and Charity

The Group has also maintained close communication with numerous universities, colleges, and schools, continuously focusing on and supporting the development of educational teaching activities.

- In 2007, the Group established the "Tiangong Development Scholarship" at Nanjing Normal University.
- In 2020, the Group set up the "Nanjing University Tiangong International Scholarship and Aid Fund" at Nanjing University.

➢ In 2022, the Group donated 1 million RMB to the Danyang Charity Federation, marking the largest single corporate donation the Charity Federation received in nearly three years.

➢ In 2022, the Group donated 5 milling and grinding machines and 200 sets of practice training uniforms to Zhongbei College.

➢ In 2023, the Group donated a total of 3 million RMB to society, including scholarships, contributions to the Charity Federation, and support for the underprivileged.

Case: Donating Computer Equipment to Support Educational Development

Danbei Experimental Junior High School is a newly established junior high school. However, the school's computer equipment could not keep up with the rapid education development and teaching needs, which posed difficulties for teaching activities. In 2023, the Group donated 60 computers to Danbei Experimental Junior High School to help improve teaching conditions and enhance the teaching quality.

Case: Sponsoring Hong Kong Charitable Football Match

The Group sponsored a friendly football match in Hong Kong, giving the elderly the opportunity to watch the games of retired Hong Kong football stars for free.

ESG Key Performance Indicators[3]

Environmental[4]

Indicator Name	Unit	2023	2022
Pollutant Emissions			
Exhaust Gas[5]			
Sulfur oxide emissions	tonnes	**1.23**	0.45
Nitrogen oxide emissions	tonnes	**27.95**	46.23
Particulate matter emissions	tonnes	**13.04**	/
Wastewater[6]			
Total wastewater discharge	tonnes	**93,880.00**	258,058.00
Chemical oxygen demand (COD) emissions	tonnes	**507.99**	/
Ammonia Nitrogen (NH3-N) Emissions	tonnes	**2.37**	/
Waste			
Total amount of waste	tonnes	**45,630.98**	56,090.16
Total amount of non-hazardous waste	tonnes	**33,688.10**	29,831.00
Melting slag	tonnes	**33,600.00**	29,700.00
Other	tonnes	**88.10**	131.00
Non-hazardous waste discharge intensity	tonnes/RMB10,000 of revenue	**0.07**	0.06
Total amount of hazardous waste	tonnes	**11,942.88**	26,259.16
Waste acid solution	tonnes	**10,692.57**	23,942.91
Other hazardous waste	tonnes	**1,250.31**	2,316.25
Hazardous waste discharge intensity	tonnes/RMB10,000 of revenue	**0.02**	0.05
Greenhouse Gas Emissions[7]			
Scope 1: Direct emissions	tonnes of CO_2e	**60,614.62**	63,111.94
Scope 2: Indirect emissions	tonnes of CO_2e	**276,626.93**	341,756.66
Total GHG emissions	tonnes of CO_2e	**337,241.55**	404,786.32
Total GHG emissions intensity	tonnes of CO_2e/RMB10,000 of revenue	**0.65**	0.80

3 During the reporting period, the Group further improved and enriched its ESG indicator system for the purpose of consolidating and refining ESG management, and therefore new indicators are disclosed in this ESG KPI table.

4 As the environmental impact of the Group's office operations is relatively small, the scope of the Group's environmental data statistics covers the energy and resources consumed and emissions generated in the production of mold steel, high-speed steel, cutting tools and titanium alloy products.

5 The Group strictly adheres to national and local laws and regulations, and sets targets for compliant emissions of exhaust gas, wastewater, and waste. During the reporting period, the Group's emissions complied with regulatory requirements.

6 The total amount of wastewater discharged includes the amount of wastewater generated from the recycling water of the smelting plant.

7 The calculation of GHG emissions from natural gas and diesel in the Group shall refer to the Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions of Chinese Steel Production Enterprises (Trial); the calculation of GHG emissions from gasoline shall refer to the Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions of Land Transport Enterprises (Trial); the calculation method and relevant coefficients of GHG emissions generated by the use of electricity refer to the notice issued by the Ministry of Ecology and Environment on the management of GHG emission reports for enterprises in the power generation industry from 2023 to 2025, which specifies a national average emission factor of 0.5703 tons of carbon dioxide per megawatt hour for the power grid.

Indicator Name	Unit	2023	2022
Energy Use			
Diesel consumption	litres	**181,548**	150,396
Natural gas consumption	cubic metres	**25,681,600**	29,109,300
Direct energy consumption	MWh	**277,812.76**	316,692.71
Purchased electricity	MWh	**485,055.11**	599,993.60
Photovoltaic electricity generation[8]	MWh	**6,814.52**	5,860.40
Indirect energy consumption (Electricity consumption)	MWh	**491,869.63**	605,854.00
Total energy consumption	MWh	**769,682.40**	922,546.71
Energy consumption intensity	MWh/RMB10,000 of revenue	**1.49**	1.82
Water Resources			
Water consumption[9]	cubic meters	**550,727**	411,158
— Municipal water	cubic meters	**265,841**	411,158
— Surface water[9]	cubic meters	**284,886**	/
Water consumption intensity	cubic meters/RMB10,000 of revenue	**1.07**	0.81
Packaging Material			
Packaging material consumption	tonnes	**3,435.40**	3,731.57
Paper	tonnes	**505.25**	/
Metal	tonnes	**1,778.80**	/
Plastic	tonnes	**182.55**	/
Wood	tonnes	**968.80**	/
Packaging material intensity	tonnes/RMB10,000 of revenue	**0.007**	0.007
Green Logistics			
Rail transport product ratio	%	**0.50**	/
Waterway transport product ratio	%	**32.70**	/
Air transport product ratio	%	**0.40**	/

8 The photovoltaic power generation is included in the total energy consumption data during the reporting period.

9 During the reporting period, the Group has improved the Water Resource Use indicators, and included the amount of water collected from surface water as a new component for water consumption in 2023. As a result, the data of 2023 is not comparable to which disclosed in 2022.

Social

Indicator Name	Unit	2023	2022
Employee Basic Information[10]			
Number of employees (as at the end of the Reporting Period)	no. of employees	**3,517**	3,203
New jobs created during Reporting Period	no. of employees	**559**	/
Graduates employed during Reporting Period	no. of employees	**65**	/
By gender			
Male	no. of employees	**2,357**	2,298
Female	no. of employees	**1,160**	905
By employment type			
Full-time	no. of employees	**3,517**	3,203
Part-time	no. of employees	**0**	0
By age group			
Under 30 years old	no. of employees	**517**	600
30–50 years old	no. of employees	**1,950**	1,923
Above 50 years old	no. of employees	**1,050**	680
By geographical region			
Mainland China	no. of employees	**3,431**	3,117
Hong Kong, Macau and Taiwan	no. of employees	**1**	1
Overseas	no. of employees	**85**	85
Employee Turnover Rate[11]			
Annual employee turnover rate	%	**6.51**	8.12
By gender			
Male	%	**6.91**	9.00
Female	%	**5.69**	6.00
By age group			
Under 31 years old	%	**15.52**	5.00
31–50 years old	%	**2.45**	9.00
Above 50 years old	%	**8.77**	9.00
By geographical region			
Mainland China	%	**6.66**	8.00
Hong Kong, Macau and Taiwan	%	**0.00**	0.00
Overseas	%	**0.00**	3.00

10 The coverage of employee data disclosed by the Group is consistent with the disclosure scope of the 2023 annual report.

11 The calculation for employee turnover rate for each employment types is the number of employees turnover of the category/(the number of employees of the category at the end of the period + the number of employees turnover of the category during the reporting period) * 100%.

Indicator Name	Unit	2023	2022
Training and Development[12]			
Employee training coverage rate	%	**100.00**	100.00
Average training hours completed per employee[13]	hours	**30**	10
Employee training hours by gender[14]			
Male	hours	**32**	10
Female	hours	**25**	10
Employee training coverage rate by gender[15]			
Male	%	**67.02**	71.75
Female	%	**32.98**	28.25
Employee training coverage rate by employee category			
Senior management	%	**1.71**	5.00
Middle management	%	**14.13**	12.00
General employees	%	**84.16**	83.00
Percentage of employees receiving regular performance and career development reviews	%	**100.00**	/
Supplier Management			
Number of suppliers	no. of suppliers	**485**	550
By geographical region			
Mainland China	no. of suppliers	**480**	550
Hong Kong, Macau and Taiwan	no. of suppliers	**2**	0
Overseas	no. of suppliers	**3**	0
Number of suppliers by class			
Core suppliers	no. of suppliers	**183**	/
Non-core suppliers	no. of suppliers	**302**	/
Percentage of suppliers certified by ISO 9001	%	**75.50**	/
Percentage of suppliers certified by ISO 14001	%	**45.60**	/
Percentage of suppliers certified by ISO 45001	%	**12.50**	/
Percentage of suppliers certified by IATF 16949	%	**8.80**	/

12 The calculation for the percentage of trained employees is the number of trained employees/total number of employees * 100%.

13 The calculation for the average training hours of employees is the total training hours of employees/total number of employees.

14 The calculation for the average training hours of employees for each employment type is the total training hours of employees in that employment type divided by the total number of employees in that employment type.

15 The calculation for the percentage of trained employees for each employment type is the number of trained employees in that category/total number of trained employees * 100%.

Indicator Name	Unit	2023	2022
Products and Services			
Annual customer satisfaction rate	%	**93.14**	/
Number of products and service-related complaints received	cases	**69**	50
Rate of products and service-related complaints resolved	%	**100.00**	100.00
Health and Safety			
Work-related injury and fatalities			
Number of work-related fatalities	person	**0**	0
Rate of work-related fatalities	%	**0.00**	0.00
Lost days due to work injury	days	**0**	0
Safety production training			
Safety production training sessions	sessions	**87**	/
Participants in safety production training	person	**2,798**	/
Total hours of safety production training	hours	**174**	/
Safety production training coverage rate	%	**100.00**	/

Executive Directors

Mr. ZHU Xiaokun, aged 67, is an Executive Director and the Chairman of the Company. He is responsible for the overall business development strategy of the Group and has over 30 years of experience in special steel and cutting tools industry. Mr. Zhu graduated from the Economic and Management Department of Jiangsu Open University. In 1984, he joined Danyang Houxiang Television Antenna Factory (the predecessor of Jiangsu Tiangong Group Company Limited ("TG Group")) as the general manager. He led the factory to transform from a television antenna factory to an enterprise of HSS cutting tools in 1987 and also subsequently to expand to include the production of HSS in 1992, the production of DS in 2005 and the production of titanium alloy in 2012. He has been acting as the Chairman of the Group since July 1997. In 1998, he was awarded as a National Township Factory Manager, named as a National Township Entrepreneur in 2004 by Ministry of Agriculture, awarded as Model of Work Force in the Jiangsu Province in 2006, Model of the National Steel Industry Work Force in 2008, Top Ten Annual Jiangsu Businessman in 2010, "Most Benevolent Model" on Charitable Donations in Jiangsu Province in 2011, awarded National Labor Medal in 2012, continuously awarded of "Most Honored Business Leader of the Twelfth Five-year Plan in Jiangsu" in 2013 to 2015 and awarded of "National Model Worker" in 2015. Mr. Zhu is the representative of the Thirteenth National People's Congress. Mr. Zhu is the father of the Chief Executive Officer of the Company and the Chief Investment Officer of the Group, Mr. Zhu Zefeng.

Mr. ZHU Zefeng, aged 42, is an Executive Director (appointed on 6 June 2023) (Note), the Chief Executive Officer of the Company and the Chief Investment Officer of the Group. He graduated with advanced diploma in Business Operation Management from the Durham College, Canada. He joined the Company as management trainee in January 2016 to acquire the relevant experience and knowledge of the manufacturing process of the Group's products. He is also involved in investigation and investment project on downstream subcontractor. Prior to his joining, he worked for TopTech Tools Manufacturing Inc. as an operation manager, with over 7 years of experience in overlooking and integration of upstream and downstream operation of its special steel business. His prime focus is to execute the Group's future investment strategy, in particular, in the integration of upstream and downstream component of the supply chain of the Group's existing business, as approved by the Board from time to time. Mr. Zhu is the son of the Executive Director and Chairman of the Company, Mr. Zhu Xiaokun.

Mr. WU Suojun, aged 51, is an Executive Director of the Company and the General Manager of TG Tools. Mr. Wu joined the Group in 1993 as a workshop officer. He is in charge of the purchase, sales, production and operation management of HSS and DS. He is also responsible for the security and environmental works.

Mr. JIANG Guangqing, aged 59, is an Executive Director of the Company. He graduated from Aerospace Industry 061 Base Technical School (航天工業零六一基地技工學校), joined the Group in 1993 and currently is the special assistant of the general manager. He is in charge of the production, operation and management of cutting tools.

Mr. YAN Ronghua, aged 55, was an Executive Director of the Company (resigned on 6 June 2023). He graduated from the Economic and Management Department of the Jiangsu Open University. He joined the Group in 1994. He was appointed as the head of office administration and subsequently the assistant general manager, deputy general manager of the Group. Mr. Yan was in charge of external investment management, and monitoring and evaluation of the Group's accounting and warehousing function.

Note: Mr. Zhu Zefeng received a total of 2 hours of director's training from the Company's Hong Kong legal adviser on 6 June 2023. Mr. Zhu confirmed that he understood his obligations as a director of a listed company.

Independent Non-Executive Directors

Mr. GAO Xiang, aged 80, joined the Company in 2007 as an Independent Non-Executive Director. In July 1966, he graduated from Wuhan Institute of Mechanics, majoring in production craftsmanship of machines and equipment. He is a senior engineer. Under his leadership, the study of twist drill extrusion technology by Chengdu Tools Research Institute was honoured with Third Class Award of Technical Findings of the Ministry of Mechanics. His achievements are widely recognized in the industry, and he has been granted special government subsidy by the State Council since 1999 as a result of such achievements.

Mr. LEE Cheuk Yin, Dannis, aged 53, joined the Company as an Independent Non-executive Director in 2010. He obtained the Bachelor of Business Administration from Texas A & M University, the USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He possesses over 20 years of experience in accounting and auditing field. Mr. Lee is currently a managing director of DLK Advisory Limited, and is an independent non-executive director of CMBC Capital Holdings Limited (formerly known as Skyway Securities Group Limited, Stock Code of HKEx: 1141), Cathay Media and Education Group Inc. (Stock Code of HKEx: 1981), C&D Property Management Group Co., Ltd. (Stock Code of HKEx: 2156) and Luen Thai Holdings Limited (Stock Code of HKEx: 0311). He was an independent non-executive director of U-Home Group Holdings Limited (Stock Code of HKEx: 2327) (resigned in 2015), Southern Energy Holdings Group Limited (formerly known as China Unienergy Group Limited, Stock Code of HKEx: 1573) (resigned in 2019) and Geely Automobile Holdings Limited (Stock Code of HKEx: 175) (resigned in 2022), and an independent director of Gridsum Holding Inc. (GSUM.US) (resigned in 2021).

Mr. WANG Xuesong, aged 52, joined the Company as an Independent Non-executive Director in 2016. He is a holder of a Bachelor's Degree in Electronic Engineering from the Tsinghua University and a Master's Degree of Business Administration from the Columbia University. Mr. Wang has been the project manager of Sun Microsystems, Inc., responsible for the development of the world's leading fourth and fifth generations of UltraSPARC CPU chips. He has been awarded the second class National Science Progress Award of the People's Republic of China with his development in 32-bit slot in CPU technology. He has over 10 years of management and engineering experience in various industries in Silicon Valley in the United States and in China. Further, Mr. Wang has nearly 20 years of operating and investment experience in the United States and China. He has been a principal of China Renaissance Capital Investment, where he was responsible for private equity investments. He has also been an executive director and a senior investment member of China Everbright Investment and Assets Management Co., Ltd. Mr. Wang was a co-founding partner of Everbright ReinFore in 2013 and is currently a member of the firm's Investment Committee.

Senior Management

Mr. JIANG Rongjun, aged 60, is an Executive Director and the General Manager of TG Tech. He joined the Group in 1985 as a workshop officer. Mr. Jiang is currently in charge of the production, sales and management of titanium alloy plant.

Mr. LIAO Jun, aged 58, is the Chief Technology Officer of the Group. He graduated from the College of Materials Science and Engineering of Chongqing University and acquired an Executive MBA from Shanghai Jiao Tong University in 2008. Prior to joining the Company in July 2014 as head of innovation and technology department, he worked as deputy chief of technical section of Shanghai No. 5 Steel Co., Ltd. He then served as deputy head of technical center of China Bao Steel Group and director of its branch steel plant. He has over 30 years of experience in special steel production and technology innovation. Mr. Liao is taking the responsibility of the Company's technology advance and development in order to enhance the product grading, technical specification and quality control.

Mr. WANG Gang, aged 40, is the Chief Financial Officer of the Group. He graduated with a master's degree from the Royal Institute of Technology, Sweden. He is a member of The Chinese Institute of Certified Public Accountants. Prior to joining the Group in August 2015, he worked in KPMG Hong Kong and KPMG China and was promoted to the position of audit manager of KPMG China. Mr. Wang then joined TG Group as chief accountant in 2014. He was appointed as a director and the financial controller of TG Tech from August 2015 and subsequently resigned from the position of financial controller in TG Tech in January 2017, in preparation for the appointment as the Chief Financial Officer of the Company. Mr. Wang has over 10 years of experience in the fields of finance, auditing, accounting and administration and is familiar with the business and operation of the Group.

Mr. LEE Johnly, aged 44, is the Financial Controller and Company Secretary of the Company. Mr. Lee joined the Group in July 2015 and has over 15 years of experience in the field of finance, auditing, accounting and administration, including working in the assurance and advisory business services department of Ernst & Young Certified Public Accountants. Mr. Lee graduated with a Bachelor's Degree in Accountancy from the Hong Kong Polytechnic University. He is a member of The Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

The Group strives to attain and maintain high standards of corporate governance and to apply the principles set out in the Corporate Governance Code (the "Code") set out in Appendix C1 (formerly, Appendix 14) to the Listing Rules as it believes that good corporate governance practices are fundamental to the Group's development and essential for safeguarding shareholders' interests. To achieve this objective, the Group strengthens its internal policies and procedures, provides continuous training to its staff and increases the transparency of its operation and accountability to all shareholders. The Group is committed to improving this practice and maintaining an ethical corporate culture. Save as disclosed below, during the year ended 31 December 2023, the Group has complied with the applicable principles and code provisions set out in the Code.

The Board

The Board's primary role is to secure and enhance long-term shareholder value. It focuses on the Group's overall strategic policy and provides proper supervision to ensure effective management and to achieve sound returns for its shareholders. The Board has delegated the authority and responsibility for implementing business strategies and management of the daily operations of the Group's business to the management. The Board is mainly responsible for developing long term objectives and strategy of the Group, monitoring operation performance and results, monitoring performance of the management, establishing dividend policy and reviewing significant investment plans and decisions. The Board meets at least four times a year and additional meetings are held when required to discuss significant events and issues.

The Board is responsible for determining the policy for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code.

Corporate governance duties performed by the Board during the year were covered in the below sections of the corporate governance report.

The company secretary of the Company (the "Company Secretary") assists the Chairman in preparing the agenda for Board meetings and all Directors shall have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. All Directors can give notice to the Chairman of the Board or the Company Secretary if they intend to include matters in the agenda for Board meetings. Regular board meetings are held with at least 14 days' advance notice, and all Directors would be served with an agenda with supporting papers at least 3 days before the intended date of a Board meeting, so as to ensure that there is timely access to relevant information. The Group ensures that all the Board members are informed of the Group's latest developments and thereby assists them in the discharge of their duties. Procedures have been agreed by the Board to enable the Directors to seek independent professional advice, at the Company's expense.

Number of Meetings and Directors' Attendance

	Attendance/Number of Board Meetings			
Name of Director	**Board Meeting**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Zhu Xiaokun *(Chairman)*	6/6	N/A	2/2	1/1
Mr. Zhu Zefeng (appointed on 6 June 2023)	1/1	N/A	N/A	N/A
Mr. Wu Suojun	6/6	N/A	N/A	N/A
Mr. Jiang Guangqing	6/6	N/A	N/A	N/A
Mr. Yan Ronghua (resigned on 6 June 2023)	5/5	N/A	N/A	N/A
Mr. Gao Xiang	6/6	2/2	2/2	1/1
Mr. Lee Cheuk Yin Dannis	6/6	2/2	2/2	1/1
Mr. Wang Xuesong	6/6	2/2	2/2	1/1

General Meetings With Shareholders

The Company's annual general meeting provides a useful platform for direct communication between the Board and its shareholders. Separate resolutions are proposed on each substantially separate issue at the general meetings.

The annual general meeting ("AGM") was held on 6 June 2023. Mr. Zhu Xiaokun acted as the chairman of the AGM.

The attendance records of the Directors at the shareholders' meetings held in the year 2023 are set out below:

	AGM
Executive Directors	
Mr. Zhu Xiaokun *(Chairman)*	✓
Mr. Wu Suojun	–
Mr. Jiang Guangqing	–
Mr. Yan Ronghua	–
Independent non-executive Directors	
Mr. Gao Xiang	✓*
Mr. Lee Cheuk Yin Dannis	✓
Mr. Wang Xuesong	✓

* Mr. Gao Xiang attended the AGM by way of video conference.

Minutes of the Board and Board Committees which record in sufficient detail the matters considered by the Board and the Board Committees and their decisions reached, including any concerns raised by Directors or dissenting views expressed are taken by the Company Secretary. Such minutes of the Board and Board Committees, together with supporting papers, are open for inspection following reasonable notice by any Director. Draft and final versions of minutes were sent to all Directors for their comment and records within a reasonable time after the relevant meeting was held. The Company has arranged appropriate insurance cover on Directors' liabilities in respect of legal actions against them arising from corporate activities.

Composition of the Board

The Board comprises four Executive Directors (Mr. Zhu Xiaokun, Mr. Zhu Zefeng, Mr. Wu Suojun and Mr. Jiang Guangqing), and three Independent Non-Executive Directors (Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong). Biographical details of the Directors as at the date of this report are set out on pages 71 to 73 of this annual report.

Independent Non-Executive Directors account for more than one-third of the members of the Board. The Independent Non-Executive Directors come either from the steel industry or have related professional background, bringing valuable expertise and experience that promotes the best interests of the Company and its shareholders. The role of the Independent Non-Executive Directors is to provide independent and objective opinions to the Board for its consideration, take the lead where potential conflicts of interests arise, serve on the audit, remuneration and nomination committees and scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitor the reporting of performance. The Company has received an annual confirmation of independence from each of the Independent Non-Executive Directors. The Company is of the view that all the Independent Non-Executive Directors meet the guidelines for assessing independence as set out in Rule 3.13 of the Listing Rules and considers each of them to be independent.

The Company had adopted a Board diversity policy aiming to set out the approach to achieve the diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members.

The Nomination Committee will follow a range of diversified perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be made upon the possible contribution that the selected candidates will bring to the Board.

As at the date of this report, there is no female Director in the Board of the Company. The Company will appoint at least one female Director before 31 December 2024 in accordance with the relevant requirements of the Listing Rules. Save as disclosed, the Nomination Committee considered that the current composition of the Board is balanced in terms of diversity and is able to meet the objectives of the Board. The Board's diversity provides the Company with experienced individuals and professionals with proven and extensive industry experience whose opinions and expertise are useful for the decision-making of the Board and the implementation of its business directives.

Directors and Company Secretary's Continuous Training and Development

Directors also participate in continuous professional development to develop and refresh their knowledge and skills. The Company has from time to time provided information and updates to the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements so as to ensure the Directors are in compliance with good corporate governance practices.

During the year ended 31 December 2023, all Directors have been provided with and read seminar materials covering topics including the Code, the disclosure of inside information and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements to refresh their knowledge and to facilitate the discharge of their responsibilities. Each of the Directors has provided to the Company his records of training received during the financial year ended 31 December 2023.

The participation by individual Directors in the continuous professional development during the year is recorded in the table below:

	Attending training, seminars, conference or forums	Reading materials, journals and updates relating to corporate governance, regulatory development and other relevant topics
Executive Directors		
Mr. Zhu Xiaokun	✓	✓
Mr. Zhu Zefeng (appointed on 6 June 2023)	✓	✓
Mr. Wu Suojun	✓	✓
Mr. Jiang Guangqing	✓	✓
Mr. Yan Ronghua (resigned on 6 June 2023)	✓	✓
Independent non-executive Directors		
Mr. Gao Xiang	✓	✓
Mr. Lee Cheuk Yin Dannis	✓	✓
Mr. Wang Xuesong	✓	✓

For the financial year ended 31 December 2023, the Company Secretary has taken no less than 15 hours of relevant professional training.

Chairman and Chief Executive Officer

The Chairman of the Board is Mr. Zhu Xiaokun, and the Chief Executive Officer is Mr. Zhu Zefeng. The Chairman's and the Chief Executive Officer's roles and responsibilities are clearly defined to ensure their independence and a balance of power and authority. The Chairman of the Board provides leadership for the Board and he is responsible for the overall management of the Board and monitoring the Group's business strategies, while the Chief Executive Officer is responsible for the Group's day-to-day management in accordance with the instructions issued by the Board and operating the business of the Group and implementing policies and strategies adopted by the Board. Save as disclosed in the section "Directors & Senior Management" of this report, there is no relationship (including financial, business, family or other material/relevant relationship(s) among the Directors.

In 2023, the Chairman has held a meeting with the Independent Non-Executive Directors without the Executive Directors being present.

Appointment, Re-election and Removal of Directors

Mr. Zhu Zefeng was appointed as an Executive Director following the resignation of Mr. Yan Ronghua on 6 June 2023. A person may be appointed as a member of the Board at any time either by shareholders' resolutions in general meetings or by resolutions of the Board upon recommendation by the Nominations Committee of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first general meeting immediately following their appointments.

Each newly appointed Director is provided with induction material on the first occasion of his/her appointment, so as to ensure that he/she has an appropriate understanding of the business and operations of the Group and that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules, code of conduct and other relevant regulatory compliance requirements.

All Directors are required to retire by rotation at least once every three years at the annual general meeting, subject to re-election by the shareholders. All Non-Executive Directors (including Independent Non-Executive Directors) are appointed for a term of not more than three years.

Board Committees

The Board has established three Board Committees to oversee different aspects of the Company's affairs. These Board Committees include the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board Committees have been structured to include a majority of Independent Non-Executive Directors as members in order to ensure that all relevant issues are reviewed independently and objectively. These Board Committees will report back to the Board on their decisions or recommendations. The terms of reference of the respective Board Committees have complied with the Code provisions and are available on the Company's website www.tggj.cn and the website of the Stock Exchange www.hkexnews.hk.

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors, namely, Mr. Lee Cheuk Yin, Dannis, Mr. Gao Xiang and Mr. Wang Xuesong. The Chairman of the Audit Committee, Mr. Lee Cheuk Yin, Dannis, possesses expertise in accounting, auditing and finance.

Under its terms of reference, the Audit Committee is mainly responsible for overseeing the Company's financial reporting system and internal procedures, reviewing the financial information of the Company and overseeing the relationship with external auditors. These include reviewing and recommending for the Board's approval the interim and the annual financial statements; reviewing the external auditors' independence, objectivity and the effectiveness of the audit process; and reviewing and recommending to the Board for approval of the external auditor's remuneration; reviewing and obtaining explanation from management and the external auditor on the results for the year, including causes of changes from the previous period, effects on the application of new accounting policies, compliance with the Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board; considering and proposing to the Board the re-appointment of the Company's external auditors; considering and approving the procedures and guidelines in employing the external auditor to perform non-audit assignments for the Company; receiving and reviewing the internal audit reports from the internal auditor; holding meetings with the external auditors in the absence of management to discuss any audit issues; holding meetings with the internal auditor in private to discuss internal audit issues; approving the internal audit program for the year; carrying out a review of the internal control and risk management systems of the Company during the year including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget and review of the effectiveness of the internal control and risk management systems of the Group. The Audit Committee has been provided with sufficient resources to discharge its duties.

The Audit Committee had held a meeting on 22 March 2024 to consider and review the 2023 annual report and annual financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considered that the 2023 annual report and annual financial statements of the Company have complied with the Listing Rules and the applicable accounting standards and the Company has made appropriate disclosure thereof.

The Audit Committee held two meetings in 2023 and one meeting to date in 2024.

The meetings were held together with the external auditors of the Company, the Chief Financial Officer, and the Financial Controller of the Company, to discuss auditing, risk management, internal control, internal audit functions and financial reporting matters which include the review of the interim and annual financial statements. Full minutes of the Audit Committee meetings were kept by the Company Secretary. Draft and final versions of such minutes were sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting. The Audit Committee has made recommendations to the Board on the reappointment of the external auditors and their remuneration and terms of engagement and reviewed their independence. No former partner of KPMG, the existing auditing firm of the Company, was acting as a member of the Audit Committee for a period of 1 year from the date of his ceasing to be a partner of the firm; or to have any financial interest in the firm.

Remuneration Committee

The Remuneration Committee comprises one Executive Director, namely, Mr. Zhu Xiaokun, and three Independent Non-Executive Directors, namely, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong. Mr. Wang Xuesong is the Chairman of the Remuneration Committee.

The primary role of the Remuneration Committee is to make recommendation to the Board on the Company's policy and structure for remuneration (including but not limited to share schemes) of Directors and senior management and to ensure that their compensation arrangements are determined in accordance with relevant contractual terms. No Director and any of his associates has taken part in any discussion on his own remuneration. Details of the fees of the Directors are set out in note 10 to the financial statements. The Company's remuneration policy is to maintain fair and competitive remuneration packages based on business needs and market practice. Factors such as market rate, an individual's qualification, experience, performance and expected workload are taken into account during the remuneration package determination process. The Remuneration Committee has consulted the Chairman of the Board, Mr. Zhu Xiaokun or the Chief Executive Officer, Mr. Zhu Zefeng, about their proposals relating to the remuneration of other Executive Directors and have access to professional advice if considered necessary. The Remuneration Committee was provided with sufficient resources to discharge its duties.

The Remuneration Committee held two meetings in 2023 and one meeting to date in 2024.

The meetings were held to assess the performance of the Directors and senior management, approve the terms of executive Director's service contracts, discuss and review the overall remuneration policy and structure. Recommendations have been made to the Board on the remuneration packages of individual executive Directors and senior management.

For the year ended 31 December 2023, the remuneration of the Directors and senior management is listed as below by band:

Band of remuneration	No. of persons
RMB0 to RMB1,000,000	9
RMB1,000,000 to RMB2,000,000	3

Further details of the remuneration of Directors and the 5 highest paid employees have been set out in notes 10 and 11 to the financial statements.

Nomination Committee

The Nomination Committee comprises one Executive Director, namely, Mr. Zhu Xiaokun, and three Independent Non-Executive Directors, namely, Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong. Mr. Gao Xiang is the Chairman of the Nomination Committee.

The primary responsibility of the Nomination Committee is to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, and assessing the independence of the Independent Non-Executive Directors. The Nomination Committee has been provided with sufficient resources to discharge its duties.

The Nomination Committee has adopted the terms of reference as outlined under the Code provisions regarding the selection, recommendation and nomination of candidates for directorship during the year. The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee held one meeting in 2023 and one meeting to date in 2024. The meetings were held to discuss and review the composition and structure of the Board and senior management and the re-appointment arrangement of the Directors in the Company's forthcoming annual general meeting. The Executive Directors were appointed based on their qualification and experience in relation to the Group's business. The Independent Non-Executive Directors were appointed based on their professional qualifications and experience in their respective areas.

Directors' Responsibility for the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements on a going concern basis, with supporting assumptions or conditions as necessary, for each financial period with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for that financial year. Management of the Company has provided such explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Company's accounts are prepared in accordance with the Listing Rules, the Companies Ordinance, all relevant statutory requirements and applicable accounting standards. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

The Directors endeavor to ensure a balanced, clear and understandable assessment of the Company's position and prospects in annual reports, interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory requirements.

Internal Control and Risk Management

Sound internal control and risk management systems enhance the effectiveness and efficiency of operations, ensures compliance with laws and regulations and mitigates the Group's business risk. The Company has an internal audit function. The Board is responsible for the internal control and risk management systems of the Group and reviewing their effectiveness and adequacy. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board and the Group's management hold meetings on a regular basis to review and evaluate the Group's business operations, production processes and financial reporting processes, adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, their training programmes and budget in order to achieve reasonable assurance of the following:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

To maintain effective internal control and risk management systems that helps The Group to achieve its business objectives and safeguard its assets, the Group has implemented measures including: (i) establishing written policies and work flow for major operations and production cycles; (ii) having in place appropriate segregation of duties; and (iii) setting proper authorisation levels.

The Group has established an internal control and monitoring department to perform the internal control review on every workshop and department and furnish opinions to the Board in respect of material matters or bring to the attention of the management the existence of any relevant risks to prevent internal control defects. This department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems.

The Board also ensures timely publication of the Group's financial statements and aims to present a clear, balanced and understandable assessment of the Group's performance and position through all its publications and communications to the public and complies with the requirements under the applicable rules and regulations about timely disclosure of inside information.

The Board, through the Audit Committee, have conducted a review covering all material controls, including financial, operational and compliance controls and risk management functions of the Group for the year ended 31 December 2023. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the Group's financial position or results of operations and, having taken into account of the adequacy of resources, staff qualifications and experience, training programs, internal audit and financial reporting functions, considered that effective and adequate internal control and risk management systems of the Group had been in place and had been functioning effectively.

External Auditors

KPMG was re-appointed as the external auditors of the Company by the shareholders at the AGM until the next annual general meeting. In order to maintain their independence, objectivity and effectiveness in performing the audit services, the Audit Committee pre-approved all audit services and discussed with KPMG the nature and scope of the audit services. KPMG is primarily responsible for providing audit services in connection with the annual consolidated financial statements.

During the year ended 31 December 2023, the total remuneration paid or payable to KPMG was RMB7,840,000, including RMB6,280,000 for consolidated financial statements audit service and RMB1,560,000 for non-audit professional service.

The Model Code for Securities Transactions by Directors of Listed Issuers

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with and on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 (formerly, Appendix 10) of the Listing Rules (the "Model Code"). All of the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors and employees who may possess or have access to price sensitive information or inside information during the year ended 31 December 2023.

Independent views

The Company will ensure that there are channels (in addition to independent non-executive directors) where independent views are available, including but not limited to availability of access by directors of the Company to external independent professional advice, at the Company's expense, to assist their performance of duties.

The Board had reviewed the implementation and effectiveness of the mechanisms in place to ensure independent views and input are available to the Board during the reporting period and is satisfied that such mechanisms have been successfully implemented and are effective.

Dividend Policy

The Group adopted the Dividend Policy on January 2020. It aims to manage its optimal capital efficiently and generate long-term sustainable value for shareholders, while balancing operational and regulatory requirements. It also aims to grow its dividend in line with business growth and to share the benefits of its success with its shareholders.

The declaration and payment of dividends shall remain to be determined at the sole discretion of the Board and subject to any applicable restrictions, laws, rules and regulations.

Given the impact of the global economy recession is currently difficult to estimate, the Company will not conclude any pre-determined dividend payout ratio for the coming financial year(s).

In proposing any dividend payout, the Board shall take into account of the following factors:

- the actual and expected financial performance of the Group;
- the general financial position of the Group;
- the working capital requirements, capital expenditure requirements and future development strategy of the Group;
- restrictions imposed by any debt covenants;
- the general market conditions;
- the business cycle of the Company's business; and
- any other factors that the Board deems appropriate.

Any final dividends declared by the Company must be approved by an ordinary resolution of the shareholders at an annual general meeting and must not exceed the amount recommended by the Board.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company as required to be disclosed pursuant to the Code:

Convening of extraordinary general meeting on requisition or putting forward proposals at general meetings by shareholders

In accordance with the section 79 of the Company's articles of association, general meetings may be convened on the written requisition of any two or more members of the Company deposited at the registered office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the registered office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders may also make use of the above mechanism in putting forward proposals at a general meeting. In order to allow shareholders to make an informed decision at the relevant general meeting, requisitionists are requested to provide contact details to the Board at the time of deposition of the requisition in case further information is required to be included in the notice of meeting.

Shareholders should note that the Company is required to give notice of an extraordinary meeting of not less than 10 clear business days (pursuant to Listing Rules requirements) and not less than 14 days (pursuant to the articles of association of the Company).

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board of the Company in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
Tiangong International Company Limited
20/F, Tien Chu Commercial Building
173–174 Gloucester Road, Wanchai, Hong Kong
Email: wing.lee@tggj.cn
Tel No.: (852) 3102-2386
Fax No.: (852) 3102-2331

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions.

Investor Relationship and Communication

The Company recognizes the importance of communication with shareholders and accountability to shareholders and has adopted a shareholders' communication policy, which is subject to annual review to ensure its implementation and effectiveness. Such policy aims to ensure that shareholders will have equal and timely access to information about the Company, so as to enable them to exercise their rights in an informed manner and to allow them to engage actively with the Company. A summary of the Company's shareholders' communication policy is set out below: Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meetings provide a forum for shareholders to make comments and raise concerns to the Board directly. The Group's senior management also maintains close communication with investors, analysts and the media by other channels including roadshows, briefings and individual meetings. The Group has set up its own website www.tggj.cn, which is updated on a regular basis, as a means to provide updated information on the Company to investors. Shareholders are encouraged to attend the forthcoming annual general meeting of the Company for which not less than 21 days' notice (pursuant to the articles of association of the Company) is given. At the meeting, the Chairman of the Board, the Chairman of the Board Committees (or their respective committee members) and the Directors are available to answer questions on the Group's business. The Company has reviewed the implementation and effectiveness of its shareholders' communication policy for the year ended 31 December 2023, including the steps taken at the general meetings, the handling of enquiries received and the multiple communication channels in place. The Company is of the view that the policy is effective and has been properly implemented.

There was no change in the constitutional documents of the Company during the year.

REPORT OF THE DIRECTORS

The Directors are pleased to submit the annual report together with the audited financial statements for the year ended 31 December 2023.

Principal Place of Business

The Company is a company incorporated and domiciled in Cayman Islands and has its principal place of business at Zhenjiang City, Jiangsu Province, the PRC.

Principal Activities

The principal activities of the Company are the production and sales of DS, HSS, cutting tools and titanium alloy. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

Financial Statements

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income on pages 106 and 107.

The financial position of the Group as at 31 December 2023 is set out in the consolidated statement of financial position of the Group on pages 108 to 109. The financial position of the Company as at 31 December 2023 is set out in note 37 to the financial statement on page 195.

The cash flows of the Group for the year ended 31 December 2023 are set out in the consolidated cash flow statement on pages 112 to 113.

Results and Appropriations

The Board proposed a final dividend payment of RMB0.0400 per share for the financial year ended 31 December 2023 (2022: RMB0.0362).

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB3,346,000 (2022: RMB2,848,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 33 to the financial statements and in the consolidated statements of changes in equity, respectively.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2023, calculated in accordance with the Companies Law (Cap. 22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB1,542,830,000 (2022: RMB1,694,347,000).

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Share Capital

Details of the movements in share capital of the Company during the year are set out in note 33 to the financial statements.

Business Review

The principal activities of the Group, a review of the business of the Group during the year and a discussion on the Group's future business development are provided in the management discussion and analysis and the Chairman's statement of this annual report. Descriptions of possible risks and uncertainties that the Group may be facing and an analysis of the Group's performance during the year using financial key performance indicators is provided on pages 6 to 26 of this annual report. Particulars of important events affecting the Group that have occurred since the end of the financial year are provided in note 40 to the financial statements.

In addition, further information of the Company's environmental protection policies and compliance with relevant laws and regulations which have a significant impact on the Group are provided in the ESG Report and in the management discussion and analysis of this annual report. An account of the Company's relationships with its key stakeholders are disclosed in the section heading "Relationships with key stakeholders" on page 26 of the management discussion and analysis of this annual report.

Directors

The Directors during the financial year were:

Executive Directors

Mr. Zhu Xiaokun
Mr. Zhu Zefeng (appointed on 6 June 2023)
Mr. Wu Suojun
Mr. Yan Ronghua (resigned on 6 June 2023) (Note)
Mr. Jiang Guangqing

Independent Non-Executive Directors

Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Wang Xuesong

Directors will retire by rotation in accordance with the requirement of the Listing Rules and the articles of association of the Company in the annual general meetings.

The Independent Non-Executive Directors are appointed for periods of one year. The Company considers that Mr. Gao Xiang, Mr. Lee Cheuk Yin, Dannis and Mr. Wang Xuesong are independent pursuant to the criteria set out in the Listing Rules and that a confirmation of independence has been received from each of them.

Note: Mr. Yan tendered his resignation as an executive director of the Company with effect from 6 June 2023 as he would like to devote more time to his other endeavours. For further details, please refer to the Company's announcement dated 6 June 2023.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 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 (set out in Appendix 10 of the Listing Rules) were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Zhu Xiaokun[1]	Interests of controlled corporations	774,758,000 (L)	27.92
	Beneficial owner	6,800,000 (L)	0.24
			28.16
Zhu Zefeng	Interests of controlled Corporations[2 and 3]	680,926,521 (L)	24.54
	Beneficial owner	1,500,000 (L)	0.05
			24.59
Wu Suojun	Beneficial owner	2,400,000 (L)	0.09
Yan Ronghua	Beneficial owner	1,500,000 (L)	0.05
Jiang Guangqing	Beneficial owner	900,000 (L)	0.03

Notes:

As at 31 December 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) Zhu Zefeng controlled 100% of Sky Greenfield Investment Limited, held 636,994,521 ordinary shares.

(3) Silver Power (HK) Limited, which was wholly owned by Sky Greenfield Investment Limited, held 43,932,000 ordinary shares.

(L) Represents long position.

(b) Interests in the shares of associated corporations

Name of Director	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Mr. Zhu Xiaokun	THCL	Beneficial owner	44,511 (L)	89.02
		Spousal interest[1]	5,489 (L)	10.98
Mr. Zhu Xiaokun	TG Tech	Beneficial owner	14,483,951 (L)[2]	2.47
Mr. Zhu Zefeng	Sky Greenfield Investment Limited	Beneficial owner[3]	1 (L)	100.00
Mr. Zhu Zefeng	Silver Power (HK) Limited	Beneficial owner[3]	1 (L)	100.00
Mr. Wu Suojun	TG Tech	Beneficial owner	1,419,195 (L)	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 end of the reporting period, as far as the Directors are aware, none of the Directors and chief executive had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Substantial Shareholders' Interests

As at 31 December 2023, save for the Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares or debentures 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	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]	636,994,521 (L)	22.95
	Interests of controlled corporations[4]	43,932,000 (L)	1.58
			24.53

(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' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".

(3) 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 and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".

(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

(L) Represents long position.

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' and Chief Executive's 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' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures — (b) Interests in the shares of associated corporation".

Loan Agreement with Specific Performance Obligation

In accordance with the continuing obligation set out in Rule 13.21 of the Listing Rules, the following are the details of the loan agreement with covenants relating to specific performance on the controlling shareholders of the Company as at the date of this report pursuant to Rule 13.18 of the Listing Rules thereof.

On 6 July 2023, the Company, as a borrower (the "Borrower") entered into a facility agreement (the "Facility Agreement") with a licensed bank in Hong Kong relating to:

— Dividend loan facility amounted to HKD111,000,000; and

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

Pursuant to the Facility Agreement, Mr. Zhu Xiaokun and Mr. Zhu Zefeng, the controlling shareholders of the Company, undertake to maintain beneficiary interests (direct and indirect) of no less than 45% shareholdings of the Company as long as the Company has facility at the bank (the "Specific Performance Obligation").

As at the date of this report, Mr. Zhu Xiaokun and Mr. Zhu Zefeng beneficially own 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 to be immediately due and payable.

Arrangements to Acquire Shares or Debentures

Save as disclosed in this report (note Share Option Scheme below), at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable a Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and the senior management are set out on pages 71 to 73.

Final Dividend and Closure of Register of Members

The register of members of the Company will be closed from 14 June 2024 to 19 June 2024 (both days inclusive), for the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company (the "Annual General Meeting") on 19 June 2024, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the Annual General Meeting, shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 13 June 2024.

The Board has resolved on 25 March 2024 to recommend the payment of a final dividend of RMB0.0400 per share for the year ended 31 December 2023 (2022: RMB0.0362) to shareholders of the Company whose names appear on the register of members of the Company on 28 June 2024. The register of members will be closed from 2 July 2024 to 5 July 2024, both days inclusive, and the proposed final dividend is expected to be paid on or before 18 July 2024. The payment of dividends shall be subject to the approval of the shareholders of the Company at the Annual General Meeting expected to be held on 19 June 2024. In order to qualify for the proposed dividend, shareholders of the Company should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 28 June 2024.

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 ("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 5.8% of the issued share capital of the Company as at the date of this report.

3. The total number of shares of the Company issued and to be issued upon exercise of the options granted to each Participant (including both exercised, cancelled and outstanding options) under the Scheme in any 12 month period must not exceed 1% of the shares in issue. Any further grant of options which would result in the number of shares issued as aforesaid exceeding the said 1% limit must be subject to prior shareholders' approval with the relevant Participant and his associates abstaining from voting.

4. The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the relevant date of grant (being the date on which the Board resolves to make an offer of option to the relevant grantee).

5. At the time of grant of the options, the Company may specify any minimum period(s) for which an option must be held before it can be exercised. The Scheme does not contain any such minimum period.

6. The amount payable on acceptance of an option is HKD1.00.

7. The subscription price for the shares, the subject of the options, shall be no less than the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant. The subscription price will be established by the Board at the time the option is offered to the Participants.

8. The Share Option Scheme shall be valid and effective till 24 May 2027.

On 11 January 2018, options entitled holders to subscribe for a total of 60,000,000 shares of USD0.0025 each were granted to and accepted by certain Directors, employees and consultants of the Company in respect of their services to the Group. 50% of these share options would be vested on 31 March 2019 if the consolidated audited net profit of the Company for the year ended 31 December 2018 represented an increase of 50% or more as compared to that of the year ended 31 December 2017. The remaining 50% of these share options would be vested on 31 March 2020 if the consolidated audited net profit of the Company for the year ending 31 December 2019 represented an increase of 50% or more as compared to that of the year ended 31 December 2018. All these options have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period commencing from the relevant vesting date and ending on 31 December of the same year as the vesting date. The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each.

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

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

There were no share options granted since the last grant of options on 11 January 2018 and up till 31 December 2023 and therefore, there were no outstanding share options during the year ended 31 December 2023.

Information on the accounting policy for share options granted is provided in note 3(p)(ii) to the financial statements respectively.

During the year ended 31 December 2023, the Company did not have any share award scheme in place.

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

Directors' and Controlling Shareholders' Interests in Contracts

Save as disclosed under the heading "Connected Transactions/Continuing Connected Transactions" below and "Material related party transactions" in note 36 to the financial statements, there is no contract of significance to the business of the Group between the Company, or any of its subsidiary companies, or a controlling shareholder or any of its subsidiaries during the year. During the year, no contract of significance for the provision of services to the Group by a controlling shareholder or any of its subsidiaries was made. There is no transaction, arrangement or contract of significance to the Group subsisting during or at the end of the year in which any Director or any entity connected with a Director is or was materially interested, either directly or indirectly.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

Permitted indemnity provision

During the year ended 31 December 2023, there was no permitted indemnity provision in force for the benefit of one or more (existing or former) directors of the Company or of its associated companies or such directors' associated companies.

Purchase, Sales or Redemption of Shares

During the year ended 31 December 2023, the Company repurchased 10,000,000 shares in total, at an aggregate consideration of HKD22,728,722 (equivalent to approximately RMB20,208,000) on the Stock Exchange. The shares repurchased were cancelled on 23 May 2023. The directors of the Company considered that the share repurchases would enhance net asset value per share and/or earnings per share of the Company. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per ordinary shares Highest (HKD)	Price per ordinary shares Lowest (HKD)	Aggregate consideration paid (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
	10,000,000			22,728,772

Save as disclosed, during the year ended 31 December 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

Issue of Shares or Debentures

Save as disclosed in this annual report, during the year ended 31 December 2023, neither the Company nor any of its subsidiaries has issued any shares or debentures.

Corporate Governance

The Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Code during the year ended 31 December 2023.

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors. The Audit Committee held a meeting on 22 March 2024 to consider and review the 2023 annual report and annual financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considered that the 2023 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

Defined contribution pension funds

The Group participates in defined contribution pension funds managed by the PRC local government authorities as disclosed in note 8(b) to the financial statements.

The PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal and provincial government authorities whereby the PRC subsidiaries are required to make contributions at the rate of 19% starting from 1 July 2016 (before 1 July 2016: 20%) of the eligible employees' salary rate to the Schemes. The Group has accrued for the required contributions which are remitted to the respective local government authorities when the contributions become due. The local government authorities are responsible for the pension obligations payable to the retired employees covered under the Schemes.

Forfeited contributions could not be used by the Group to reduce the existing level of contributions.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to major customers and suppliers during the financial year ended 31 December 2023 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer/supplier	17%	25%
Five largest customers/suppliers in aggregate	32%	51%

At no time during the year had the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

A majority of the domestic customers were granted credit for a term of 90 days, depending on the sales order volumes and the creditworthiness of individual customers. Beyond the normal credit term, a 90-day extension was also granted to key and credit-worthy customers subject to specific approval from management.

Overseas customers were generally granted Letter of Credit ("L/C") of 90 days, and a longer term-up L/C up to 120 days was allowed to customers with steady and high sales volumes.

The Group accepted bills from customers as settlement of trade receivables. The maturity period of bills ranges from three to twelve months.

Connected Transactions/Continuing Connected Transactions

There were no connected transactions or continuing connected transactions of the Company which are subject to any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Details of the related party transactions of the Group during the reporting period are set out in note 36 to the consolidated financial statements in this report. These related party transactions either fall outside the definitions of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules or are "connected transactions" fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that they have been entered into in the ordinary and usual course of business of the Group on normal commercial terms and according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pledge of Assets

As at 31 December 2023, the Group pledged certain bank deposits amounting to approximately RMB129,288,000 (31 December 2022: RMB140,041,000) and certain trade receivables amounting to approximately RMB161,843,000 (31 December 2022: RMB145,131,000).

Financial Information Summary

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 197. This summary does not form part of the audited financial statements.

Directors' Interests in Competing Business

During the year and up to the date of this annual report, none of the Directors are considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules.

Management Contracts

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, as at the date of this annual report, the Company has maintained sufficient public float as required under the Listing Rules.

Auditors

KPMG will retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There has been no change in the Company's auditors in any of the preceding three years.

Tax Relief and Exemption

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities. If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to the Company's shares, they are advised to consult an expert.

By order of the Board

Tiangong International Company Limited
Zhu Xiaokun
Chairman
Hong Kong, 25 March 2024

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Tiangong International Company Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Tiangong International Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 106 to 196, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December, 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to Note 5 to the consolidated financial statements and the accounting policies on pages 130 to 131.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of die steel, high speed steel, cutting tools and titanium alloy products to distributors and manufacturers. Contracts for different products with different types of customers have a variety of different terms. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the appropriate timing of revenue recognition. Revenue from domestic and overseas sales is recognised when the control of the goods have been transferred to customers, which is generally when the goods leave the Group's warehouses, or when the goods are delivered to customers and the Group obtains the notes of goods transfer in accordance with the terms of the sales contracts.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting key customer contracts to identify performance obligations and terms and conditions relating to transfer of control of the goods and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing revenue transactions recorded during the current year, on a sample basis, with invoices, sales contracts and other underlying documents to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies;

Revenue recognition (continued)

Refer to Note 5 to the consolidated financial statements and the accounting policies on pages 130 to 131.

The Key Audit Matter	How the matter was addressed in our audit
We identified the recognition of revenue as a key audit matter because revenue is one of the key performance indicators of the Group and is, therefore, subject to an inherent risk of manipulation by management to meet targets or expectations.	• comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which includes goods acceptance notes and customs declaration forms, to assess whether revenue had been recognised in accordance with the terms of the sales contracts and in the correct financial year; • inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and the closing period and which met specific risk-based criteria; • confirming, on a sample basis, the value of sales transactions during the year and balances of trade receivables of the year end directly with customers and for unreturned confirmations, performing alternative procedures by comparing the sales amount of the transactions with the relevant underlying documentation; and • inquiring of management as to the reasons for sales credits issued subsequent to the year end and inspecting relevant underlying documentation in order to assess whether the sales credits were completely and accurately accounted for in the correct financial year.

Expected credit loss allowances for trade receivables

Refer to Note 24 to the consolidated financial statements and the accounting policies on pages 122 to 126.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2023, the gross amount of the Group's trade receivables totalled RMB2,246 million, against which a loss allowance of RMB150 million for expected credit losses (ECLs) was made. The carrying value of the Group's trade receivables represented approximately 15% of the total assets as at 31 December 2023. Management measures the loss allowance at an amount equal to lifetime ECLs based on estimated loss rates for each category of trade receivables grouped according to the shared credit risk characteristics. The estimated loss rates take into account the ageing of trade receivable balances, the repayment history of the Group's customers, current market conditions, customer-specific conditions, and forward-looking information. Such assessment involves significant management judgement and estimation. We identified the expected credit loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.	Our audit procedures to assess the expected credit loss allowance for trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standard; • assessing whether items in the trade receivables ageing report were categorised in the appropriate ageing bracket by comparing individual items therein with sales invoices and other relevant underlying documentation, on a sample basis; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by management, including the basis of segmentation of the trade receivables based on shared credit risk characteristics of customers in management's estimated loss rates; • assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current market conditions, customer-specific conditions and forward-looking information; and • re-performing the calculation of the loss allowance as at 31 December 2023 based on the Group's credit loss allowance policies.

Valuation of inventories

Refer to Note 23 to the consolidated financial statements and the accounting policies on page 126.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2023, the Group's gross inventories totalled RMB2,549 million, against which provisions for inventories of RMB72 million were recorded. The Group's inventories are valued at the lower of cost and net realisable value. The Group's provisions for inventories to write down the cost of inventories to their net realisable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sales. The selling prices of the Group's special steel products are subject to market price volatility of the main raw materials, which include steel and alloys. Certain steel products are produced to meet the specific needs of downstream customers, the demand for which may change significantly from time to time. We identified the valuation of inventories as a key audit matter because of the significant management judgment involved in assessing the level of provisions for inventories, particularly in respect of slow moving inventories and inventories where the net realisable value may be less than the recorded cost.	Our audit procedures to assess the valuation of inventories included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over making provisions for inventories; • assessing the assumptions and estimates made by management in making provisions for inventories by performing a retrospective review of the historical accuracy of these estimates, discussing any significant variances with management and considering the impact of these variances on the current year's assumptions and estimates; • evaluating whether items were correctly categorised in the inventories ageing report by comparison with production records, on a sample basis; • recalculating the Group's inventory provision with reference to the sales order received, or historical selling price; • comparing year end inventory levels of individual products, on a sample basis, with sales plans agreed with customers in order to assess the residual risk of the inventories' realisability; and • inspecting the inventory ageing report and observing the condition of inventory during our attendance at the year-end inventory count to identify any slow moving and obsolete inventory items and critically assessing whether appropriate provisions have been established for slow moving and obsolete items, for which there has been a lack of recent sales transactions.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yue Tat Wai.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023 (Expressed in Renminbi)

	Note	2023 RMB'000	2022 RMB'000
Revenue	5	**5,163,306**	5,066,807
Cost of sales		**(4,019,922)**	(3,918,320)
Gross profit		**1,143,384**	1,148,487
Other income	6	**127,253**	157,895
Distribution costs		**(118,053)**	(219,776)
Administrative expenses		**(160,122)**	(146,666)
Research and development costs		**(312,361)**	(288,456)
Other operating expenses	7	**(53,482)**	(31,947)
Profit from operations		**626,619**	619,537
Finance income		**41,624**	46,294
Finance expenses		**(198,587)**	(176,189)
Net finance costs	8(a)	**(156,963)**	(129,895)
Share of profits less losses of associates	19	**8,702**	16,470
Share of profits less losses of joint ventures	20	**(12,888)**	13,248
Profit before taxation	8	**465,470**	519,360
Income tax	9	**(45,542)**	4,750
Profit for the year		**419,928**	524,110
Attributable to:			
Equity shareholders of the Company		**370,209**	503,535
Non-controlling interests		**49,719**	20,575
Profit for the year		**419,928**	524,110
Earnings per share (RMB)	13		
Basic and diluted		**0.133**	0.181

The notes on pages 114 to 196 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 33(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023 (Expressed in Renminbi)

	Note	2023 RMB'000	2022 RMB'000
Profit for the year		**419,928**	524,110
Other comprehensive income for the year (after tax adjustment)	12		
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income (FVOCI) — net movement in fair value reserve (non-recycling) (inclusive of tax effect of Renminbi ("RMB") 1,600,000 (2022: RMB2,720,000)		**(7,328)**	(22,806)
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))		**(12,962)**	(57,915)
Other comprehensive income for the year		**(20,290)**	(80,721)
Total comprehensive income for the year		**399,638**	443,389
Attributable to:			
Equity shareholders of the Company		**349,996**	422,697
Non-controlling interests		**49,642**	20,692
Total comprehensive income for the year		**399,638**	443,389

The notes on pages 114 to 196 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023 (Expressed in Renminbi)

	Note	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	14	**4,506,918**	4,607,596
Lease prepayments	15	**248,869**	233,842
Intangible assets	16	**57,721**	65,333
Goodwill	17	**144,600**	144,600
Interest in associates	19	**99,181**	95,473
Interest in joint ventures	20	**29,823**	47,669
Other financial assets	21	**192,840**	189,694
Deferred tax assets	32(b)	**63,372**	60,007
		5,343,324	5,444,214
Current assets			
Financial assets measured at fair value through profit or loss (FVPL)	22	**1,111**	1,041
Inventories	23	**2,477,492**	2,583,470
Trade and other receivables	24	**3,552,788**	2,632,708
Pledged deposits	25	**129,288**	140,041
Time deposits	26	**1,307,985**	1,341,834
Cash and cash equivalents	27	**749,087**	1,219,843
		8,217,751	7,918,937
Current liabilities			
Trade and other payables	28	**1,583,176**	1,659,779
Interest-bearing borrowings	29	**2,209,423**	1,866,813
Other financial liability	31	**1,581,250**	1,524,650
Current taxation	32(a)	**26,729**	28,240
		5,400,578	5,079,482
Net current assets		**2,817,173**	2,839,455
Total assets less current liabilities		**8,160,497**	8,283,669

As at 31 December 2023 (Expressed in Renminbi)

	Note	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Interest-bearing borrowings	29	**685,598**	1,028,500
Deferred income	30	**37,788**	42,530
Deferred tax liabilities	32(c)	**52,523**	71,306
		775,909	1,142,336
NET ASSETS		**7,384,588**	7,141,333
CAPITAL AND RESERVES			
Share capital	33(e)	**49,055**	49,231
Reserves		**7,015,500**	6,811,053
Total equity attributable to equity shareholders of the Company		**7,064,555**	6,860,284
Non-controlling interests		**320,033**	281,049
TOTAL EQUITY		**7,384,588**	7,141,333

Approved and authorised for issue by the board of directors on 25 March 2024.

Zhu Xiaokun
Director

Zhu Zefeng
Director

The notes on pages 114 to 196 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		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 31 December 2021 and 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 2022:												
Profit for the year		–	–	–	–	–	–	–	–	503,535	20,575	524,110
Other comprehensive income	12	–	–	–	–	–	(57,910)	(22,928)	–	–	117	(80,721)
Total comprehensive income		–	–	–	–	–	(57,910)	(22,928)	–	503,535	20,692	443,389
Dividends approved in respect of the previous year	33(b)(ii)	–	–	–	–	–	–	–	–	(165,429)	–	(165,429)
Dividends of a subsidiary		–	–	–	–	–	–	–	–	–	(15,234)	(15,234)
Transfer to reserve	33(f)(vi)	–	–	–	–	–	–	–	73,311	(73,311)	–	–
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	19,626	19,626
Acquisition of non-controlling interests		–	–	–	(1,211)	–	–	–	–	–	(6,347)	(7,558)
Repurchase of own shares	33(c)	(168)	(26,018)	168	–	–	–	–	–	–	–	(26,018)
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 114 to 196 form part of these financial statements.

		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 31 December 2022 and 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 2023:												
Profit for the year		–	–	–	–	–	–	–	–	370,209	49,719	419,928
Other comprehensive income	12	–	–	–	–	–	(12,939)	(7,274)	–	–	(77)	(20,290)
Total comprehensive income		–	–	–	–	–	(12,939)	(7,274)	–	370,209	49,642	399,638
Dividends approved in respect of the previous year	33(b)(ii)	–	–	–	–	–	–	–	–	(100,459)	–	(100,459)
Transfer to reserve	33(f)(vi)	–	–	–	–	–	–	–	66,814	(66,814)	–	–
Liquidation of subsidiaries		–	–	–	–	–	–	–	(222)	222	–	–
Acquisition of non-controlling interests	33(d)	–	–	–	(25,058)	–	–	–	–	–	(10,658)	(35,716)
Repurchase of own shares	33(c)	(176)	(20,208)	176	–	–	–	–	–	–	–	(20,208)
Balance at 31 December 2023		49,055	2,707,612	908	35,255	91,925	(134,881)	38,080	1,070,464	3,206,137	320,033	7,384,588

The notes on pages 114 to 196 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2023 (Expressed in Renminbi)

	Note	2023 RMB'000	2022 RMB'000
Operating activities			
Cash generated from operations	27(b)	**122,730**	368,618
Tax paid		**(67,601)**	(65,065)
Net cash generated from operating activities		**55,129**	303,553
Investing activities			
Payment for purchase of property, plant and equipment		**(277,791)**	(496,301)
Payment for lease prepayments		**(21,185)**	(40,682)
Payment for purchase of intangible assets		**(181)**	–
Payment for purchase of other financial assets		**(16,494)**	(25,000)
Acquisition of subsidiaries, net of cash acquired		**–**	(260,453)
Proceeds from time and pledged deposits, net		**44,602**	511,797
Interest received		**33,276**	46,294
Dividends received from associates		**–**	4,245
Dividends received from other financial assets	6	**14,367**	9,232
Payment for interest in associates		**–**	(23,000)
Proceeds from gains on structured deposits		**–**	2,579
Net cash used in investing activities		**(223,406)**	(271,289)

The notes on pages 114 to 196 form part of these financial statements.

For the year ended 31 December 2023 (Expressed in Renminbi)

	Note	2023 RMB'000	2022 RMB'000
Financing activities			
Proceeds from interest-bearing borrowings	27(c)	**3,591,088**	3,352,797
Repayment of interest-bearing borrowings	27(c)	**(3,598,233)**	(3,225,488)
Interest paid	27(c)	**(140,894)**	(119,104)
Capital contribution from non-controlling shareholders		**–**	19,626
Dividends paid to equity shareholders of the Company	33(b)(ii)	**(100,459)**	(165,429)
Dividend paid to non-controlling shareholders		**–**	(15,234)
Payment for repurchase of shares	33(c)	**(20,208)**	(26,018)
Payment for acquisition of non-controlling interests	33(d)	**(35,716)**	(7,558)
Net cash used in financing activities		**(304,422)**	(186,408)
Net decrease in cash and cash equivalents		**(472,699)**	(154,144)
Cash and cash equivalents at 1 January		**1,219,843**	1,356,881
Effect of foreign exchange rate changes		**1,943**	17,106
Cash and cash equivalents at 31 December	27(a)	**749,087**	1,219,843

The notes on pages 114 to 196 form part of these financial statements.

1 Reporting entity

Tiangong International Company Limited (the "Company") was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 July 2007.

The Company and its subsidiaries are collectively referred to as the "Group".

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Material accounting policies adopted by the Group are disclosed in Note 3.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group as at and for the year ended 31 December 2023 comprise the Company and its subsidiaries and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investments in equity securities (see Note 3(d))

2 Basis of preparation (continued)

(c) Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are set out in Note 4.

(d) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform — Pillar Two model rules*

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

Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

3 Material accounting policies

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

For each business combination, the Group can elect to measure any non-controlling interests ("NCI") either at fair value or at the NCI's proportionate share of the subsidiary's net identifiable assets. NCI are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. NCI in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of the Company. Loans from holders of NCI and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 3(o) or (m) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(h)(ii)), unless is classified as held for sale (or included in a disposal Group classified as held for sale).

3 Material accounting policies (continued)

(b) Associates and joint ventures

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group or the Company has joint control, whereby the Group or the Company has the rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

An interest in an associate or a joint venture is accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group classified as held for sale). They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("OCI") of those investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit loss (ECL) model to such other long-term interests where applicable (see Note 3(h)(i))).

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

In the Company's statement of financial position, an investment in an associate or a joint venture is stated at cost less impairment losses (see Note 3(h(ii))), unless it is classified as held for sale (or included in a disposal group classified as held for sale).

(c) Goodwill

Goodwill arising on acquisition of businesses is measured at cost less accumulated impairment losses and is tested annually for impairment (see Note 3(h)(ii)).

(d) Other investments in securities

The Group's policies for investments in securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note34(f). These investments are subsequently accounted for as follows, depending on their classification.

3 Material accounting policies (continued)

(d) Other investments in securities (continued)

Equity investments

An investment in equity securities is classified as FVPL, unless the investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in OCI. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. If such election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income (see Note 3(s)(iii)).

(e) Property, plant and equipment

Property, plant and equipment is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less accumulated depreciation and impairment losses (see Note 3(h(ii))).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment less their estimated residual values, if any, using the straight line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

— Freehold land	not depreciated
— Plant and buildings	20–40 years
— Machinery	10–20 years
— Motor vehicles	8 years
— Office equipment and others	5 years

3 Material accounting policies (continued)

(e) Property, plant and equipment (continued)

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Construction in progress represents plant and buildings under construction and equipment pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 3(h(ii))). Cost comprises direct costs of construction as well as interest charges during the year of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the People's Republic of China (the "PRC").

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(f) Intangible assets (other than goodwill)

Expenditure on research activities is recognised in profit or loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the resulting asset. Otherwise, it is recognised in profit or loss as incurred. Capitalised development expenditure is subsequently measured at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets, including patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less accumulated amortisation and any accumulated impairment losses (see Note 3(h(ii)).

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful life
— Patents and trademarks	10 years
— Technical know-how	10 years
— Software	3–10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3 Material accounting policies (continued)

(g) Leased assets

Lease prepayments represent cost of land use right paid to the People's Republic of China governmental authorities. Lease prepayments are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the periods of the rights which are 50 years.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for leases that have a short lease term of 12 months or less, and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is recognised using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, and any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 3(e) and 3(h)(ii)).

3 Material accounting policies (continued)

(g) Leased assets (continued)

(i) As a lessee (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. Otherwise, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 3(s)(ii).

3 Material accounting policies (continued)

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECL"s) on financial assets measured at amortised cost (including cash and cash equivalents, time deposits, pledged deposits and trade receivables and other receivables) and debt instruments measured at FVOCI (recycling).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

— lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

— financial instruments that are determined to have low credit risk at the reporting date; and

— other financial instruments (including loan commitments issued) for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

3 Material accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk

When determining whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

— the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

— the financial asset is 90 days past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in non-equity securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in OCI and accumulated in the fair value reserve (recycling) does not reduce the carrying amount of the financial asset in the statement of financial position.

3 Material accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or being more than 90 days past due;

— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

— it is probable that the debtor will enter bankruptcy or other financial reorganisation; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the asset becomes 5 years past due or when the Group otherwise determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

3 Material accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than property carried at revalued amounts, inventories and other contract costs, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Material accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 3(h)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Inventories and other contract costs

(i) Inventories

Inventories are measured at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see Note 3(i)(i)), property, plant and equipment (see Note 3(e)) or intangible assets (see Note 3(f)).

Incremental costs of obtaining a contract, e.g. sales commissions, are capitalised if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Otherwise, costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised contract costs is recognised in profit or loss when the revenue to which the asset relates is recognised (see Note 1(s)(i)).

3 Material accounting policies (continued)

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 3(s)) before being unconditionally entitled to the consideration under the terms in the contract. Contract assets are assessed for ECLs (see Note 3(h)(i)) and are reclassified to receivables when the right to the consideration becomes unconditional (see Note 3(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 3(s)). A contract liability is also recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such latter cases, a corresponding receivable is also recognised (see Note 3(k)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 3(s)).

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost (see Note 3(h)(i)). Receivables that are held for collection of contractual cash flows and for selling the financial assets are measured at fair value through other comprehensive income.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs (see Note 3(h)(i)).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

3 Material accounting policies (continued)

(n) Contingent redeemable capital contributions

Contingent redeemable capital contributions are classified as financial liabilities as they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred). The liability is recognised and measured in accordance with the Group's policy for interest-bearing borrowings set out in Note 3(o) and accordingly interests thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with Note 3(u).

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(ii) Share-based payments

The grant-date fair value of equity-settled share-based payments granted to employees is measured using the binomial lattice model. The amount is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service conditions at the vesting date.

(q) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

3 Material accounting policies (continued)

(q) Income tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

— temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

— temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

— taxable temporary differences arising on the initial recognition of goodwill; and

— those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

3 Material accounting policies (continued)

(r) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

Revenue is recognised when the goods are shipped from the Group's warehouses, delivered at the customers' premises, or loaded on board. If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

3 Material accounting policies (continued)

(s) Revenue and other income (continued)

(ii) Rental income from operating leases

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iii) Dividends

Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

(iv) Interest income

Interest income is recognised using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset.

3 Material accounting policies (continued)

(t) Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

— an investment in equity securities designated as at FVOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);

— a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and

— qualifying cash flow hedges to the extent that the hedges are effective.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Hong Kong dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Hong Kong dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

3 Material accounting policies (continued)

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(v) Business combination

The Group accounts for business combination using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 3(c)). Any gain on a bargain purchase is recognised in profit and loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the profit and loss.

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

3 Material accounting policies (continued)

(w) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Chairman (the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4 Accounting judgements and estimates

Sources of estimation uncertainty

Notes 17 and 34(f) contain information about the assumptions and their risk factors relating to goodwill impairment and fair value of financial instruments. Other significant sources of estimation uncertainty are as follows:

(i) Impairment losses on trade receivables

The Group estimates the amount of loss allowance for ECLs on trade receivables that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves a high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(ii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and historical experience of distributing and selling products of a similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market conditions. Management reassess the estimations at each end of the reporting period.

(iv) Income taxes

Determining income tax provisions involves judgement regarding the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

5 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are the manufacturing and sales of high alloy steel, (including die steel ("DS") and high speed steel ("HSS")), cutting tools, titanium alloy, trading of goods and others after eliminating intercompany transactions. Further details regarding the Group's principal activities are disclosed in Note 5(b).

(i) Disaggregation of revenue

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

	2023 RMB'000	2022 RMB'000
DS	**2,345,986**	2,703,341
HSS	**815,904**	964,780
Cutting tools	**905,754**	756,726
Titanium alloy	**963,836**	362,420
Others	**131,826**	279,540
	5,163,306	5,066,807

The Group's revenue from contracts with customers is recognised at a point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 5(b)(iii).

The Group's customer base is diversified and includes 1 customer (2022: nil customer) with whom transactions have exceeded 10% of the Group's revenue.

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts for products such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of products that had an original expected duration of one year or less.

5 Revenue and segment reporting (continued)

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Chairman (the chief operating decision maker) for the purposes of resource allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

(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 revenue 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.

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

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

Information regarding the Group's reportable segments as provided to the Chairman (the chief operating decision maker) for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2023 and 2022 is set out below.

	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	2,345,986	815,904	905,754	963,836	131,826	5,163,306
Inter-segment revenue	95	271,527	5,319	–	–	276,941
Reportable segment revenue	2,346,081	1,087,431	911,073	963,836	131,826	5,440,247
Reportable segment profit (adjusted EBIT)	108,679	97,624	195,368	208,914	20,233	630,818
Reportable segment assets	5,285,497	2,683,495	1,807,993	962,227	216,757	10,955,969
Reportable segment liabilities	790,334	303,962	287,618	198,385	18,715	1,599,014

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

	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	2,703,341	964,780	756,726	362,420	279,540	5,066,807
Inter-segment revenue	–	271,369	–	107	–	271,476
Reportable segment revenue	2,703,341	1,236,149	756,726	362,527	279,540	5,338,283
Reportable segment profit (adjusted EBIT)	207,723	145,163	140,801	72,435	63,368	629,490
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

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

Revenue	**2023 RMB'000**	2022 RMB'000
Reportable segment revenue	**5,440,247**	5,338,283
Elimination of inter-segment revenue	**(276,941)**	(271,476)
Consolidated revenue (Note 5(a))	**5,163,306**	5,066,807

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

Profit	2023 RMB'000	2022 RMB'000
Reportable segment profit	**630,818**	629,490
Net finance costs	**(156,963)**	(129,895)
Share of profits less losses of associates	**8,702**	16,470
Share of profits less losses of joint ventures	**(12,888)**	13,248
Unallocated head office and corporate expenses	**(4,199)**	(9,953)
Consolidated profit before taxation	**465,470**	519,360

Assets	2023 RMB'000	2022 RMB'000
Reportable segment assets	**10,955,969**	10,233,856
Interest in associates	**99,181**	95,473
Interest in joint ventures	**29,823**	47,669
Other financial assets	**192,840**	189,694
Deferred tax assets	**63,372**	60,007
Financial assets measured at fair value through profit or loss (FVPL)	**1,111**	1,041
Pledged deposits	**129,288**	140,041
Time deposits	**1,307,985**	1,341,834
Cash and cash equivalents	**749,087**	1,219,843
Unallocated head office and corporate assets	**32,419**	33,693
Consolidated total assets	**13,561,075**	13,363,151

5 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

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

Liabilities	**2023** **RMB'000**	2022 RMB'000
Reportable segment liabilities	**1,599,014**	1,670,401
Interest-bearing borrowings	**2,895,021**	2,895,313
Other financial liability	**1,581,250**	1,524,650
Current taxation	**26,729**	28,240
Deferred tax liabilities	**52,523**	71,306
Unallocated head office and corporate liabilities	**21,950**	31,908
Consolidated total liabilities	**6,176,487**	6,221,818

(iii) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

Substantially all of the Group's assets and liabilities are located in the PRC and accordingly, no geographical analysis of segment assets and liabilities is provided.

Revenues from external customers	**2023** **RMB'000**	2022 RMB'000
The PRC	**2,594,152**	1,951,642
North America	**926,221**	1,037,725
Europe	**1,067,180**	1,301,421
Asia (other than the PRC)	**528,550**	695,123
Others	**47,203**	80,896
	5,163,306	5,066,807

6 Other income

	Note	2023 RMB'000	2022 RMB'000
Government grants	(i)	**61,316**	31,878
Sales of scrap materials		**2,890**	3,218
Dividend income	(ii)	**14,367**	9,232
Unrealised fair value changes of other financial assets		**(4,420)**	4,910
Realised gains on structured deposits		**–**	2,579
Net gains on trading securities		**70**	–
Net foreign exchange gains		**45,738**	92,871
Gains from disposal of interest in an associate, a joint venture and subsidiaries		**–**	1,927
Net gains on disposal of property, plant and equipment		**747**	–
Others		**6,545**	11,280
		127,253	157,895

Note:

(i) The subsidiaries of the Company, located in the PRC collectively received unconditional grants amounting to RMB53,490,000 (2022: RMB24,102,000) from the local government. The Group also recognised amortisation of government grants related to assets of RMB7,826,000(2022: RMB7,776,000) during the year ended 31 December 2023 (see Note 30).

(ii) The Group received dividends totaling RMB14,367,000 (2022: RMB9,232,000) from listed equity investments, unlisted units in investment funds and trading securities (see Note 21 and 22).

7 Other operating expenses

	2023 RMB'000	2022 RMB'000
Provision for loss allowance on trade and other receivables	**48,487**	24,645
Net losses on disposal of property, plant and equipment	**–**	3,293
Charitable donations	**3,346**	2,848
Net losses on trading securities	**–**	610
Losses from disposal of interest in subsidiaries	**804**	–
Others	**845**	551
	53,482	31,947

8 Profit before taxation

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

(a) Net finance costs

	2023 RMB'000	2022 RMB'000
Interest income	**(41,624)**	(46,294)
Finance income	**(41,624)**	(46,294)
Interest on bank loans	**141,987**	119,589
Interest expenses arising on other financial liability	**56,600**	56,600
Finance expenses	**198,587**	176,189
Net finance costs	**156,963**	129,895

(b) Staff costs

	2023 RMB'000	2022 RMB'000
Contributions to defined contribution retirement plans	**32,978**	25,388
Salaries, wages and other benefits	**364,138**	339,665
	397,116	365,053

The Group participates in defined contribution pension funds managed by the PRC local government authorities. According to the respective pension fund regulations, the Group is required to pay annual contributions determined by the respective authorities in the PRC. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

8 Profit before taxation (continued)

(c) Other items

	Note	2023 RMB'000	2022 RMB'000
Amortisation of intangible assets	16	**8,215**	3,489
Depreciation charge			
— owned property, plant and equipment	14	**371,974**	324,436
— lease prepayments (right-of-use assets)	15	**6,158**	5,040
		378,132	329,476
Net foreign exchange gains	6	**45,738**	92,871
Auditor's remuneration			
— audit services		**6,387**	6,695
— other services		**1,554**	960
		7,941	7,655
Provision for write-down of inventories	23(b)	**10,157**	28,257
Cost of inventories*	23(b)	**4,019,922**	3,918,320

* Cost of inventories includes amounts relating to staff costs and depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above or in Note 8(b) for each of these types of expenses.

9 Income tax in the consolidated statement of profit or loss

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

	2023 RMB'000	2022 RMB'000
Current tax		
Provision for PRC Corporate Income Tax (Note 32(a))	**57,649**	29,543
Provision for Hong Kong Profits Tax (Note 32(a))	**8,242**	20,880
Provision for Thailand Corporate Income Tax (Note 32(a))	**199**	996
Provision for USA Corporate Income Tax (Note 32(a))	**–**	931
	66,090	52,350
Deferred tax		
Origination and reversal of temporary differences	**(20,548)**	(57,100)
	45,542	(4,750)

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

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

Jiangsu Tiangong Tools New Materials Company Limited ("TG Tools"), Jiangsu Tiangong Aihe Technology Company Limited (formerly known as Tiangong Aihe Company Limited) ("TG Aihe"), Jiangsu Weijian Tools Technology Company Limited ("Weijian Tools"), Jiangsu Tiangong Technology Company Limited ("TG Tech") and Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools") are subject to a preferential income tax rate of 15% in 2023 available to enterprises which qualify as a High and New Technology Enterprise (2022: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2022: 25%).

The income tax law of the PRC and its relevant regulations also impose withholding tax at 10%, unless reduced by a tax treaty/arrangement, on dividend distributions made out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

9 Income tax in the consolidated statement of profit or loss (continued)

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

(iii) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong are liable to Hong Kong Profits Tax at a rate of 16.5% (2022: 16.5%) for the year ended 31 December 2023.

(iv) 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% (2022: 20%) for the year ended 31 December 2023.

(v) Pursuant to the income tax rules and regulations of USA, the Group's subsidiary incorporated in the USA is subject to Federal Tax at a rate of 21% and State Profits Tax at a rate of 7%. On 26 December 2023, the Group disposed of its entire equity interests in TG Special Steel USA Co., Ltd("TG USA"), which is further detailed in Note 18.

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

	2023 **RMB'000**	2022 RMB'000
Profit before taxation	**465,470**	519,360
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2022: 25%)	**116,368**	129,840
Effect of preferential tax rates	**(15,349)**	(9,426)
Effect of different tax rates	**6,559**	(18,398)
Tax effect of non-deductible expenses	**16,359**	10,148
Tax effect of non-taxable income	**(3,199)**	(11,273)
Tax effect of unused tax losses not recognised	**282**	4,929
Tax effect of derecognition of previously recognised tax losses	**2,869**	–
Tax effect of bonus deduction for research and development costs	**(78,239)**	(68,941)
Over provision in respect of prior year	**(108)**	(2,137)
Tax effect of utilisation of previously unrecognised tax losses	**–**	(873)
Tax effect of recognition of previously unrecognised temporary difference	**–**	(281)
Tax effect of temporary differences not recognised	**–**	500
Effect of withholding tax on profit distribution	**–**	(6,625)
Tax effect of additional deduction for purchase of equipment	**–**	(9,354)
Tax effect of reversal of deferred tax liabilities recognised previously	**–**	(23,004)
Others	**–**	145
Actual tax expense	**45,542**	(4,750)

10 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	2023 Total RMB'000
Executive directors						
Zhu Xiaokun	–	429	9	465	–	903
Wu Suojun	–	625	9	410	–	1,044
Yan Ronghua (Note (i))	–	212	4	–	–	216
Jiang Guangqing	–	471	9	44	–	524
Zhu Zefeng (Note (ii))	–	241	–	–	–	241
Independent non-executive directors						
Wang Xuesong	87	–	–	–	–	87
Gao Xiang	36	–	–	–	–	36
Lee Cheuk Yin, Dannis	87	–	–	–	–	87
Total	210	1,978	31	919	–	3,138

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	Discretionary bonuses RMB'000	Share-based payments RMB'000	2022 Total RMB'000
Executive directors						
Zhu Xiaokun	–	435	–	460	–	895
Wu Suojun	–	689	8	374	–	1,071
Yan Ronghua	–	526	8	102	–	636
Jiang Guangqing	–	489	8	45	–	542
Independent non-executive directors						
Wang Xuesong	86	–	–	–	–	86
Gao Xiang	36	–	–	–	–	36
Lee Cheuk Yin, Dannis	86	–	–	–	–	86
Total	208	2,139	24	981	–	3,352

Note:

(i) Yan Ronghua was appointed as executive director on June 20, 2007 and has resigned on June 6, 2023.

(ii) Zhu Zefeng was appointed as executive director on June 6, 2023.

11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2022: two) are directors whose emoluments are disclosed in Note 10. The aggregate of the emoluments in respect of the other three (2022: three) individuals are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	**1,814**	1,892
Discretionary bonuses	**1,191**	1,227
Contributions to retirement benefit schemes	**34**	32
	3,039	3,151

The emoluments of the three (2022: three) individuals with the highest emoluments are within the following bands:

	2023 Number of individuals	2022 Number of individuals
Hong Kong dollar (HKD) nil to HKD1,000,000	**–**	1
HKD1,000,001 to HKD1,500,000	**3**	2

12 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	Equity investments at FVOCI — net movement in fair value reserves (non-recycling) RMB'000	Exchange differences on translation of financial statements RMB'000	Total RMB'000
For the year ended 31 December 2023			
Before-tax amount	**(8,928)**	**(12,962)**	**(21,890)**
Tax expense	**1,600**	**–**	**1,600**
Net-of-tax amount	**(7,328)**	**(12,962)**	**(20,290)**
For the year ended 31 December 2022			
Before-tax amount	(25,526)	(57,915)	(83,441)
Tax expense	2,720	–	2,720
Net-of-tax amount	(22,806)	(57,915)	(80,721)

(Expressed in Renminbi unless otherwise indicated)

13 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 RMB370,209,000 (2022: RMB503,535,000) and the weighted average of 2,778,642,505 ordinary shares (2022: 2,787,658,500 ordinary shares) in issue during the year, calculated as follows:

	2023	2022
Net profit attributable to equity shareholders of the company	**370,209,000**	503,535,000
Weighted average number of ordinary shares	**2,778,642,505**	2,787,658,500
Basic earnings per share	**0.133**	0.181

Weighted average number of ordinary shares

	2023	2022
Issued ordinary shares at 1 January	**2,785,000,000**	2,795,000,000
Effect of repurchase of own shares	**(6,357,495)**	(7,341,500)
Weighted average number of ordinary shares at 31 December	**2,778,642,505**	2,787,658,500

(b) Diluted earnings per share

The diluted earnings per share for 2023 and 2022 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the years.

14 Property, plant and equipment

	Freehold land RMB'000	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
Balance at 1 January 2022	13,420	1,181,539	5,141,460	11,251	64,970	178,441	6,591,081
Business combination	–	2,229	768	–	8	169,288	172,293
Additions	–	4,598	96,757	1,120	7,113	386,713	496,301
Transfer to fixed assets	–	120,534	222,908	103	5,109	(348,654)	–
Disposals	–	(17,619)	(9,708)	–	(707)	–	(28,034)
Reclassification	–	28,153	(28,337)	(142)	326	–	–
Transfer to intangible assets (Note 16)	–	–	–	–	(13,819)	–	(13,819)
Exchange adjustment	716	2,371	2,997	33	52	155	6,324
Balance at 31 December 2022	14,136	1,321,805	5,426,845	12,365	63,052	385,943	7,224,146
Additions	–	3,307	111,200	500	16,972	145,812	277,791
Transfer to fixed assets	–	85,110	249,863	317	7,392	(342,682)	–
Disposals	–	–	(14,265)	–	(2)	–	(14,267)
Transfer to construction in progress	–	–	(10,729)	–	–	536	(10,193)
Reclassification	–	1,075	(165)	(103)	(807)	–	–
Transfer to intangible assets (Note 16)	–	–	–	–	–	(422)	(422)
Exchange adjustment	421	1,403	1,863	20	38	449	4,194
Balance at 31 December 2023	14,557	1,412,700	5,764,612	13,099	86,645	189,636	7,481,249
Accumulated depreciation:							
Balance at 1 January 2022	–	(416,241)	(1,854,859)	(5,234)	(41,381)	–	(2,317,715)
Business combination	–	–	(36)	–	(3)	–	(39)
Charge for the year	–	(38,021)	(278,948)	(1,715)	(5,752)	–	(324,436)
Written back on disposals	–	12,133	7,645	–	214	–	19,992
Reclassification	–	(2,522)	2,522	–	–	–	–
Transfer to intangible assets (Note 16)	–	–	–	–	6,439	–	6,439
Exchange adjustment	–	(86)	(683)	(11)	(11)	–	(791)
Balance at 31 December 2022	–	(444,737)	(2,124,359)	(6,960)	(40,494)	–	(2,616,550)
Charge for the year	–	(46,823)	(314,167)	(1,707)	(9,277)	–	(371,974)
Written back on disposals	–	–	4,754	–	1	–	4,755
Transfer to construction in progress	–	–	10,193	–	–	–	10,193
Reclassification	–	(57)	(149)	9	197	–	–
Exchange adjustment	–	(75)	(658)	(10)	(12)	–	(755)
Balance at 31 December 2023	–	(491,692)	(2,424,386)	(8,668)	(49,585)	–	(2,974,331)
Net book value:							
At 31 December 2023	14,557	921,008	3,340,226	4,431	37,060	189,636	4,506,918
At 31 December 2022	14,136	877,068	3,302,486	5,405	22,558	385,943	4,607,596

15 Lease prepayments

	RMB'000
Cost:	
At 1 January 2022	193,035
Business combination	37,823
Additions	40,682
At 31 December 2022	271,540
Additions	21,185
At 31 December 2023	292,725
Accumulated amortisation:	
At 1 January 2022	(29,821)
Business combination	(2,837)
Charge for the year	(5,040)
At 31 December 2022	(37,698)
Charge for the year	(6,158)
At 31 December 2023	(43,856)
Net book value:	
At 31 December 2023	248,869
At 31 December 2022	233,842

The amortisation charge for the year is included in "cost of sales" and "administrative expenses" in the consolidated statement of profit or loss.

15 Lease prepayments (continued)

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2023 RMB'000	2022 RMB'000
Lease prepayments, carried at depreciated cost in the PRC, with remaining lease term of between 10 and 50 years	**248,869**	233,842

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2023 RMB'000	2022 RMB'000
Amortisation charge of right-of-use assets by class of underlying asset:		
Lease prepayments	**6,158**	5,040
Expenses relating to short-term leases and low-value assets	**818**	1,398

During the year ended 31 December 2023, additions right-of-use assets were RMB21,185,000 for purchase of leasehold land (2022: RMB40,682,000 for purchase of leasehold land) and nil for leasehold land acquired through business combination (2022: RMB37,823,000). Details of total cash outflows for leases are set out in Note 27(d).

16 Intangible assets

	Patents and trademarks RMB'000	Technical know-how RMB'000	Software	Total RMB'000
Cost:				
At 1 January 2022	19,000	–	–	19,000
Business combination	–	44,500	–	44,500
Transfer from property, plant and equipment (Note 14)	–	–	13,819	13,819
At 31 December 2022 and 1 January 2023	19,000	44,500	13,819	77,319
Additions	–	–	181	181
Transfer from property, plant and equipment (Note 14)	–	–	422	422
At 31 December 2023	19,000	44,500	14,422	77,922
Accumulated amortisation:				
At 1 January 2022	(2,058)	–	–	(2,058)
Charge for the year	(1,900)	(1,589)	–	(3,489)
Transfer from property, plant and equipment (Note 14)	–	–	(6,439)	(6,439)
At 31 December 2022 and 1 January 2023	(3,958)	(1,589)	(6,439)	(11,986)
Charge for the year	(1,900)	(4,769)	(1,546)	(8,215)
At 31 December 2023	(5,858)	(6,358)	(7,985)	(20,201)
Net book value:				
At 31 December 2023	13,142	38,142	6,437	57,721
At 31 December 2022	15,042	42,911	7,380	65,333

17 Goodwill

	RMB'000
Cost:	
Balance at 1 January 2022	21,959
Business combination	122,641
Balance at 31 December 2022 and 2023	144,600
Accumulated impairment losses:	
Balance at 1 January and 31 December	–
Carrying amount:	
At 31 December 2023 and 2022	144,600

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill is allocated to the Group's CGUs identified according to the reportable segments as follows:

	2023 **RMB'000**	2022 RMB'000
DS	**21,959**	21,959
Cutting Tools	**122,641**	122,641
	144,600	144,600

(Expressed in Renminbi unless otherwise indicated)

17 Goodwill (continued)

The recoverable amount of the CGU is determined based on value-in-use calculation. The Group engaged an independent professional valuer to assist with the calculation. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used in estimating the recoverable amount are as follows:

Cutting tools

	2023	2022
Annual revenue growth rate during the forecast period	**11.9%**	12.1%
Gross profit margin	**54.1%**	51.3%
Growth rate beyond the forecast period (note(i))	**0.0%**	0.0%
Pre-tax discount rate	**16.0%**	15.8%

(i) Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate which is consistent with the forecasts included in industry reports and generally in line with 2022.

As at 31 December 2023, the recoverable amount of the CGU was RMB575,865,000 (2022:RMB542,250,000), which was higher than its carrying amount by RMB296,840,000 (2022: RMB247,258,000) .

DS

	2023	2022
Annual revenue growth rate during the forecast period	**10.9%**	10.6%
Gross profit margin	**24.1%**	20.2%
Growth rate beyond the forecast period (note(i))	**2.0%**	2.0%
Pre-tax discount rate	**8.6%**	9.2%

(i) Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate which is consistent with the forecasts included in industry reports and generally in line with 2022.

As at 31 December 2023, the recoverable amount of the CGU was RMB3,611,526,000 (2022:RMB2,891,146,000), which was higher than its carrying amount by RMB2,580,311,000 (2022: RMB2,575,473,000) .

(Expressed in Renminbi unless otherwise indicated)

18 Interest in subsidiaries

The following list contains only the subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary shares unless otherwise stated.

Name of company	Place and date of incorporation	Proportion of ownership interest		Issued and fully paid-up/ registered capital	Principal activity
		Direct	Indirect		
China Tiangong Company Limited	British Virgin Islands, 14 August 2006	100%	–	United States dollar ("USD") 50,000/ USD50,000	Investment holding
TG Tools	The PRC, 7 July 1997	–	99%	RMB2,608,441,142/ RMB2,608,441,142	Research and development, manufacture and sale of high speed steel and die steel
TG Aihe	The PRC, 5 December 2003	–	100%	RMB2,000,000,000/ RMB2,000,000,000	Research and development, manufacture and sale of die steel and high speed steel
China Tiangong (Hong Kong) Company Limited ("CTCL (HK)")	Hong Kong, 13 June 2008	–	100%	HKD1/ HKD1	Investment holding
TG Tech	The PRC, 27 January 2010	–	75.58%	RMB586,600,015/ RMB586,600,015	Research and development, manufacture and sale of titanium related products
Tiangong Development Hong Kong Company Limited ("TG Development")	Hong Kong, 15 February 2012	–	100%	USD5,500,000/ USD5,500,000	Trading of special steel
Weijian Tools	The PRC, 29 May 2013	–	100%	RMB46,705,425/ RMB52,195,485	Research and development, manufacture and sale of high speed steel-related products
Jiangsu Tiangong International Trading Company Limited (Note (i))	The PRC, 6 March 2014	–	100%	RMB20,000,000/ RMB50,000,000	Trading of goods
Jurong Tiangong New Materials Technology Company Limited ("TG New Materials")	The PRC, 29 July 2015	–	100%	RMB300,000,000/ RMB300,000,000	Research and development, manufacture and sale of high speed steel and die steel related products
Precision Tools	The PRC, 25 January 2016	–	100%	HKD600,000,000/ HKD680,000,000	Research and development, manufacture and sale of cutting tools related products

(Expressed in Renminbi unless otherwise indicated)

18 Interest in subsidiaries (continued)

Name of company	Place and date of incorporation	Proportion of ownership interest Direct	Proportion of ownership interest Indirect	Issued and fully paid-up/ registered capital	Principal activity
Jiangsu Tiangong Investment Management Company Limited	The PRC, 9 March 2017	–	100%	RMB534,734,395/ RMB534,734,395	Investment management and advisory related services
Tiangong Precision Tools Company Limited	British Virgin Islands, 12 January 2018	100%	–	–/ USD50,000	Investment holding
Tiangong Precision Tools (Hong Kong) Company Limited	Hong Kong, 7 February 2018	–	100%	HKD1/ HKD1	Investment holding and trading of cutting tools
TGSS	Thailand, 16 August 2019	–	99.2%	Thai Baht ("THB")100,000,000/ THB100,000,000	Trading of special steel
Changzhou Junrui Tools Company Limited	The PRC, 24 October 2019	–	65%	RMB3,000,000/ RMB3,000,000	Sale of cutting tools related products
TGPT	Thailand, 25 October 2019	–	100%	THB270,000,000/ THB270,000,000	Manufacture and sale of cutting tools related products
TG USA. (Note (ii))	the United States, 12 May 2020	–	100%	–/ USD10,000	Trading of special steel
Jiangsu Tiangong New Materials Company Limited	The PRC, 29 September 2020	–	100%	RMB300,000,000/ RMB300,000,000	Investment holding
Jurong Tiangong Precision Metal Products Company Limited (Note (iii))	The PRC, 18 January 2021	–	100%	RMB1,300,000/ RMB30,000,000	Trading of goods
Guangdong Aihe Mould Technology Co., Ltd.	The PRC, 27 July 2021	–	100%	RMB23,000,000/ RMB120,000,000	Research and development, manufacture and sale of special steel related product
Jiangsu Tiangong Carbide Technology Company Limited	The PRC, 21 December 2021	–	84%	RMB26,000,000/ RMB26,000,000	Manufacture and sale of carbide cutting tools
Jiangsu Tiangong New Material Applied Technology Company Limited	The PRC, 11 April 2022	–	100%	–/ RMB60,000,000	Research and development, manufacture and sale of special steel related product

(Expressed in Renminbi unless otherwise indicated)

18 Interest in subsidiaries (continued)

Name of company	Place and date of incorporation	Proportion of ownership interest Direct	Proportion of ownership interest Indirect	Issued and fully paid-up/ registered capital	Principal activity
Tiangong Ostte (Shenzhen) Industrial Technology Co., Ltd	The PRC, 27 July 2022	–	51%	RMB2,000,000/ RMB5,000,000	Research and development, manufacture and sale of cutting tools related products
Jiangsu Tianguan Precision Machinery Development Co., Ltd. ("Tianguan Precision")	The PRC, 8 November 2016	–	100%	RMB100,000,000/ RMB100,000,000	Research and development, manufacture and sale of cutting tools related products
Jiangsu Tiangong Solomon Alloy New Material Co., Ltd ("Tiangong Solomon)	The PRC, 8 March 2021	–	55%	RMB30,000,000/ RMB30,000,000	Research and development, manufacture and sale of titanium related products
Tiangong International Trading (Dongguan) Co., Ltd. ("Dongguan trading") (Note (iv))	The PRC, 6 January 2023	–	100%	HKD3,000,000/ HKD10,000,000	Processing and sales of electric tool sets
Tiangong Precision Manufacturing (Dongguan) Co., Ltd. ("Precision Dongguan") (Note (v))	The PRC, 5 December 2023	–	100%	–/ HKD10,000,000	Processing and sales of electric tool sets

Note:

(i) Jiangsu Tiangong International Trading Company Limited completed its deregistration on 24 October 2023.

(ii) TG USA completed its deregistration on 26 December 2023.

(iii) Jurong Tiangong Precision Metal Products Company Limited completed its deregistration on 29 November 2023.

(iv) On 6 January 2023, Tiangong Precision Tools (Hong Kong) Company Limited established a subsidiary Tiangong International Trading (Dongguan) Co., Ltd., which is principally engaged in downstream processing and distribution of Electric tool sets.

(v) On 5 December 2023, Tiangong Precision Tools (Hong Kong) Company Limited established a subsidiary Tiangong Precision Manufacturing (Dongguan) Co., Ltd., which is principally engaged in downstream processing and distribution of Electric tool sets.

All of the subsidiaries incorporated in PRC are limited liability companies except for TG Tools and TG Tech, which are joint stock limited companies.

18 Interest in subsidiaries (continued)

The following table lists out information relating to TG Tech, the subsidiary of the Group, which has a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2023 RMB'000	2022 RMB'000
NCI percentage	24.42%	25.97%
Current assets	935,346	676,066
Non-current assets	209,589	170,142
Current liabilities	(267,392)	(141,434)
Non-current liabilities	(8,242)	(10,715)
Net assets attributable to equity shareholders	850,181	680,298
Carrying amount of NCI	207,614	176,673
Revenue	1,035,110	383,302
Profit for the year attributable to equity shareholders	169,755	69,981
Total comprehensive income attributable to equity shareholders	169,755	69,981
Profit allocated to NCI	41,454	18,174
Dividend paid to NCI	–	15,234
Cash flows from operating activities	3,848	72,234
Cash flows from investing activities	(69,261)	(16,891)
Cash flows from financing activities	–	(58,660)

(Expressed in Renminbi unless otherwise indicated)

19 Interest in associates

The following list contains only the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Xinzhenggong Company Limited ("XZG")	Incorporated	Taiwan	Taiwan new dollars ("TWD") 200,000,000	20.83%	–	20.83%	Sale of special steel related products
SB Specialty Metals Holdings LLC ("SBSMH")	Incorporated	United States of America	USD8,625,000	19.75%	–	19.75%	Sale of special steel related products
Fusion TG Canada Inc ("TGC")	Incorporated	Canada	Canada dollars ("CAD") 6,300,000	20%	20%	–	Sale of special steel related products
Kushan Tianzhong New Materials Technology Co., Ltd ("TZNMT")	Incorporated	The PRC	RMB10,000,000	40%	–	40%	Sale of special steel related products
Tiantai Mould Technology (Kunshan) Co., Ltd ("TTMT")	Incorporated	The PRC	RMB10,000,000	40%	–	40%	Sale of special steel related products
Chengdu Tiante Mould Technology Co., Ltd. ("CDTT")	Incorporated	The PRC	RMB10,000,000	40%	–	40%	Sale of special steel related products
Guangdong Tiannuo New Materials Technology Co., Ltd ("GDTN")	Incorporated	The PRC	RMB5,000,000	30%	–	30%	Sale of special steel related products
Guangdong Tianjiayu Mould Technology Co., Ltd ("GDTJY")	Incorporated	The PRC	RMB12,500,000	30%	–	30%	Sale of special steel related products

19 Interest in associates (continued)

All of the above associates are accounted for using the equity method in the consolidated financial statements.

Aggregate information of associates that are not individually material:

	2023 RMB'000	2022 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**99,181**	95,473

	2023 RMB'000	2022 RMB'000
Aggregate amounts of the Group's share of those associates'		
— Profits from continuing operations	**8,702**	16,470
— Other comprehensive income	**807**	3,084
Total comprehensive income	**9,509**	19,554

20 Interest in joint ventures

Details of the Group's interest in joint ventures, which are accounted for using the equity method in the consolidated financial statements, are set out below:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
TGK Special Steel PVT Limited ("TGK")	Incorporated	India	USD2,000,000	50%	–	50%	Sale of special steel related products
TG Czech S.R.O. ("CTM")	Incorporated	Czech Republic	Czech Koruna ("CZK") 26,140,000	50%	–	50%	Sale of special steel related products
Five Star Special Steel Europe S.R.L ("FSS")	Incorporated	Italy	Euro ("EUR") 100,000	60%	–	60%	Sale of special steel related products
TG Middle East Celik San Ltd. ("TGME")	Incorporated	Turkey	EUR1,000,000	50%	–	50%	Sale of special steel related products

Aggregate information of joint ventures that are not individually material:

	2023 **RMB'000**	2022 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**29,823**	47,669

	2023 **RMB'000**	2022 RMB'000
Aggregate amount of the Group's share of those joint ventures'		
— (Losses)/profits from continuing operations	**(12,888)**	13,248
— Other comprehensive income	**(4,958)**	(4,278)
Total comprehensive income	**(17,846)**	8,970

21 Other financial assets

	Note	2023 RMB'000	2022 RMB'000
Equity securities designated at FVOCI (non-recycling)			
— Listed in the PRC	(i)	**97,266**	105,024
— Unlisted equity security	(ii)	**380**	120
Financial asset measured at fair value through profit or loss (FVPL)			
— Unlisted units in investment funds	(iii)	**95,194**	84,550
		192,840	189,694

Note:

(i) The listed equity securities are shares in Bank of Jiangsu Co., Ltd., a company listed on the Mainboard of the Shanghai Stock Exchange ("SSE") and shares 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 RMB8,142,000 were received from these investments during the year ended 31 December 2023 (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 year ended 31 December 2023 (2022: RMB 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) Danyang Boyun Hengda Tiangong Industrial Investment Center (Limited Partnership) and Suzhou Yiming New Materials Venture Capital Partnership Enterprise (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 RMB6,204,000 were received from these investments during the year ended 31 December 2023 (2022: RMB2,409,000).

22 Financial assets measured at fair value through profit or loss (FVPL)

	2023 RMB'000	2022 RMB'000
Trading securities	**1,111**	1,041

Note: The trading securities are the Group's portfolio of listed equity securities in the capital markets of the PRC and Hong Kong. The Group measured these listed equity securities at FVPL, as the investments are held for trading purposes. Dividends of RMB21,000 were received from these trading securities during the year ended 31 December 2023 (2022: RMB3,000).

23 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	2023 RMB'000	2022 RMB'000
Raw materials	**115,141**	160,014
Work in progress	**1,492,541**	1,510,800
Finished goods	**869,810**	912,656
	2,477,492	2,583,470

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2023 RMB'000	2022 RMB'000
Carrying amount of inventories sold	**4,009,765**	3,890,063
Provision for write-down of inventories	**10,157**	28,257
	4,019,922	3,918,320

24 Trade and other receivables

	2023 RMB'000	2022 RMB'000
Trade receivables	**2,246,281**	1,697,853
Bills receivable	**818,760**	699,453
Less: loss allowance	**(149,555)**	(111,645)
Net trade and bills receivable	**2,915,486**	2,285,661
Prepayments	**224,199**	223,327
Non-trade receivables	**311,133**	132,243
Less: loss allowance	**(7,907)**	(8,523)
Current taxation	**109,877**	–
Net prepayments and non-trade receivables	**637,302**	347,047
	3,552,788	2,632,708

Substantially all of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

Certain bills receivable held by the Group are achieved by both collection of contractual cash flows and sales, which are measured at fair value through other comprehensive income. As at 31 December 2023, bills receivable of RMB124,285,000 (2022: RMB87,409,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under IFRS 9. The fair value changes of these bills receivable at fair value through other comprehensive income were insignificant during the year. Historically, the Group has experienced no significant credit losses on bills receivable. The Group from time to time endorses certain bills receivable to suppliers in order to settle trade payables.

As at 31 December 2023, the Group endorsed certain bills receivable with a total carrying amount of RMB333,383,000 (2022: RMB412,077,000) to suppliers for settling trade payables of the same amount on a full recourse basis. In the opinion of the directors of the Company, the Group has not transferred the substantial risks and rewards relating to these bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled.

24 Trade and other receivables (continued)

As at 31 December 2023, the Group endorsed certain bills receivable to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considers the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at 31 December 2023, the Group's maximum exposure to loss and undiscounted cash outflow, which is the same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB190,737,000 (2022: RMB192,662,000).

As at 31 December 2023, bills receivable of RMB340,000,000 (2022: RMB158,000,000) were discounted to financial institutions. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considers the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable.

Trade receivables of RMB161,843,000 (2022: RMB145,131,000) have been pledged to a bank as security for the Group's bank loans.

Ageing analysis

As of 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:

	2023 **RMB'000**	2022 RMB'000
Within 3 months	**1,925,195**	1,523,341
4 to 6 months	**411,251**	292,466
7 to 12 months	**387,440**	325,498
1 to 2 years	**172,756**	113,999
Over 2 years	**18,844**	30,357
	2,915,486	2,285,661

Trade receivables are due from 90 to 180 days from the date of billing. Further details on the Group's credit policy and credit risk arising for trade receivables are set out in Note 34(a).

25 Pledged deposits

As at 31 December 2023, bank deposits of RMB129,288,000 (2022: RMB140,041,000) have been pledged to banks as security for the Group to issue bank acceptance bills and other banking facilities. The pledge in respect of the bank deposits will be released upon the settlement of the related bills by the Group and the termination of related banking facilities.

26 Time deposits

As at 31 December 2023, time deposits of RMB1,307,985,000 (2022: RMB1,341,834,000) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

27 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	2023 **RMB'000**	2022 RMB'000
Cash at bank and on hand	**749,087**	1,219,843

As at 31 December 2023, cash and cash equivalents situated in Chinese Mainland amounted to RMB584,841,000 (2022: RMB959,910,000). Remittance of funds out of Chinese Mainland is subject to relevant rules and regulations of foreign exchange control.

27 Cash and cash equivalents and other cash flow information (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2023 RMB'000	2022 RMB'000
Profit before taxation		**465,470**	519,360
Adjustments for:			
Depreciation of property, plant and equipment	8(c)	**371,974**	324,436
Amortisation of lease prepayments	8(c)	**6,158**	5,040
Amortisation of intangible assets	8(c)	**8,215**	3,489
Interest income		**(33,276)**	(46,294)
Interest expenses	8(a)	**198,587**	176,189
Net (gains)/losses on disposal of property, plant and equipment	6/7	**(747)**	3,293
Dividend income	6	**(14,367)**	(9,232)
Unrealised fair value changes of other financial assets	6	**4,420**	(4,910)
Net (gains)/losses on trading securities	6/7	**(70)**	610
Realised gains on structured deposits	6	**–**	(2,579)
Gains from disposals of interest in associates, a joint venture and a subsidiary	6	**–**	(1,927)
Provision for loss allowance on trade and other receivables	7	**48,487**	24,645
Share of profits less losses of associates	19	**(8,702)**	(16,470)
Share of profits less losses of joint ventures	20	**12,888**	(13,248)
Changes in working capital:			
Change in inventories		**105,978**	(300,802)
Change in trade and other receivables		**(959,847)**	(516,952)
Change in trade and other payables		**(77,696)**	231,746
Change in deferred income		**(4,742)**	(7,776)
Cash generated from operations		**122,730**	368,618

27 Cash and cash equivalents and other cash flow information (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000	Interest payable RMB'000	Other financial liability RMB'000	Total RMB'000
At 1 January 2022	2,638,786	1,783	1,468,050	4,108,619
Changes from financing cash flows:				
Proceeds from interest-bearing borrowings	3,352,797	–	–	3,352,797
Repayment of interest-bearing borrowings	(3,225,488)	–	–	(3,225,488)
Interest paid	–	(119,104)	–	(119,104)
Total changes from financing cash flows	127,309	(119,104)	–	8,205
Exchange adjustments	84,218	–	–	84,218
Other changes:				
Interest expenses (Note 8(a))	–	119,589	56,600	176,189
Business combination	45,000	–	–	45,000
Total other changes	45,000	119,589	56,600	221,189
At 31 December 2022 and 1 January 2023	2,895,313	2,268	1,524,650	4,422,231
Changes from financing cash flows:				
Proceeds from interest-bearing borrowings	3,591,088	–	–	3,591,088
Repayment of interest-bearing borrowings	(3,598,233)	–	–	(3,598,233)
Interest paid	–	(140,894)	–	(140,894)
Total changes from financing cash flows	(7,145)	(140,894)	–	(148,039)
Exchange adjustments	3,492	–	–	3,492
Other changes:				
Interest expenses (Note 8(a))	–	141,987	56,600	198,587
Reclass interest payable	3,361	(3,361)	–	–
Total other changes	3,361	138,626	56,600	198,587
At 31 December 2023	2,895,021	–	1,581,250	4,476,271

27 Cash and cash equivalents and other cash flow information (continued)

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2023 RMB'000	2022 RMB'000
Within operating cash flows	818	1,398
Within investing cash flows	21,185	40,682
	22,003	42,080

These amounts relate to the following:

	2023 RMB'000	2022 RMB'000
Lease rentals paid	818	1,398
Purchase of leasehold land	21,185	40,682
	22,003	42,080

(Expressed in Renminbi unless otherwise indicated)

28 Trade and other payables

	2023 RMB'000	2022 RMB'000
Trade and bills payable	**1,246,803**	1,272,129
Contract liabilities	**13,394**	23,476
Non-trade payables and accrued expenses	**322,979**	364,174
	1,583,176	1,659,779

All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	2023 RMB'000	2022 RMB'000
Within 3 months	**762,016**	711,968
4 to 6 months	**410,250**	402,223
7 to 12 months	**44,873**	118,981
1 to 2 years	**17,056**	28,428
Over 2 years	**12,608**	10,529
	1,246,803	1,272,129

29 Interest-bearing borrowings

	Note	2023 RMB'000	2022 RMB'000
Current			
Secured bank loans	(i)	**126,046**	130,485
Unsecured bank loans	(ii)	**1,096,913**	1,010,828
Current portion of non-current unsecured bank loans		**986,464**	725,500
		2,209,423	1,866,813
Non-current			
Secured bank loans	(iii)	**140,142**	–
Unsecured bank loans	(iv)	**1,531,920**	1,754,000
Less: Current portion of non-current unsecured bank loans		**(986,464)**	(725,500)
		685,598	1,028,500
Interest-bearing borrowings		**2,895,021**	2,895,313

Note:

(i) Current secured bank loans are secured by certain trade receivables and sales contracts at annual interest rate of 4.05% (2022: 0.79% to 2.84%) per annum.

(ii) Current unsecured bank loans carry interest at annual rates ranging from 2.60% to 6.44% (2022: 0.90% to 4.35%) per annum and are all repayable within one year.

(iii) Non-current secured bank loans are secured by Precision Tools's share capital at annual interest rate of 3.45% (2022: nil) per annum.

(iv) Non-current unsecured bank loans carry interest at annual rates ranging from 3.60% to 4.35% (2022: 2.70% to 4.75%) per annum.

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

	2023 RMB'000	2022 RMB'000
Within 1 year	**986,464**	725,500
Over 1 year but less than 2 years	**487,365**	774,500
Over 2 years but less than 5 years	**198,233**	254,000
	1,672,062	1,754,000

As at 31 December 2023, the Group's banking facility with four (2022: two) banks are subject to the fulfilment of covenants 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. Further details of the Group's management of liquidity risk are set out in Note 34(b).

As at 31 December 2023, the Company issued a guarantee to TG Development in respect of bank loans granted to the TG Development, of RMB434,712,000 (31 December 2022: RMB424,472,000).

30 Deferred income

Deferred income consists of conditional government grants received for completion of certain construction projects. As at 31 December 2023, the carrying amount of deferred income in respect of government grants after amortisation (Note 6(i)) amounted to RMB37,788,000 (2022: RMB42,530,000).

31 Other financial liability

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

	2023	2022
	RMB'000	RMB'000
Contingent redeemable capital contributions in a subsidiary	**1,581,250**	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.

32 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2023	2022
	RMB'000	RMB'000
At the beginning of the year	**28,240**	40,955
Provision for PRC Corporate Income Tax for the year	**57,649**	29,543
Provision for Hong Kong Profits Tax for the year	**8,242**	20,880
Provision for USA Profits Tax for the year	–	931
Provision for Thailand Corporate Income Tax for the year	**199**	996
Hong Kong Profits Tax paid	**(31,115)**	(6,383)
Thailand Corporate Income Tax paid	**(1,598)**	(1,022)
PRC taxes paid	**(34,888)**	(57,660)
At the end of the year	**26,729**	28,240

32 Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets recognised and not recognised

The components of the deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Deductible tax losses RMB'000	Unrealised profits RMB'000	Loss allowance for trade and other receivables RMB'000	Write-down of inventories RMB'000	Government grants RMB'000	Depreciation of fixed assets RMB'000	Undistributed profits of subsidiaries RMB'000	Deductible capitalised borrowing costs RMB'000	Revaluation of equity securities RMB'000	Fair value adjustment arising from business combination RMB'000	Deductible fixed assets RMB'000	Total RMB'000
At 1 January 2022	325	16,794	13,613	6,022	5,455	–	(16,568)	(56,403)	(14,249)	(12,871)	–	(57,882)
Business combination	–	–	–	–	–	–	–	–	–	(13,237)	–	(13,237)
Credited/(charged)to profit or loss	12,709	1,702	4,584	5,001	(675)	130	16,568	26,379	(1,228)	1,275	(9,345)	57,100
Credited to reserves	–	–	–	–	–	–	–	–	2,720	–	–	2,720
At 31 December 2022 and 1 January 2023	13,034	18,496	18,197	11,023	4,780	130	–	(30,024)	(12,757)	(24,833)	(9,345)	(11,299)
Credited/(charged)to profit or loss	12,639	(7,788)	8,505	2,093	(219)	(130)	–	1,948	1,105	1,793	602	20,548
Credited to reserves	–	–	–	–	–	–	–	–	1,600	–	–	1,600
At 31 December 2023	25,673	10,708	26,702	13,116	4,561	–	–	(28,076)	(10,052)	(23,040)	(8,743)	10,849

In accordance with the accounting policy set out in Note 3(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB29,796,000 (2022: RMB28,396,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by subsidiaries in the PRC expire within 5 years from the year when such losses were incurred under current tax legislation.

(c) Deferred tax liabilities recognised and not recognised

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	2023 RMB'000	2022 RMB'000
Net deferred tax asset in the consolidated statement of financial position	**63,372**	60,007
Net deferred tax liability in the consolidated statement of financial position	**(52,523)**	(71,306)
	10,849	(11,299)

Deferred tax liabilities of RMB204,323,000 (2022: RMB230,244,000) have not been recognised in respect of distributable profits of certain subsidiaries of the Group, as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that the undistributed profits earned by these subsidiaries of the Group will not be distributed in the foreseeable future.

33 Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2022		49,399	2,753,838	564	3,195	5,770	(956,929)	1,855,837
Total comprehensive income for the year		–	–	–	–	84	88,885	88,969
Dividends approved in respect of the previous year	33(b)(ii)	–	–	–	–	–	(165,429)	(165,429)
Repurchase of own shares	33(c)	(168)	(26,018)	168	–	–	–	(26,018)
Balance at 31 December 2022 and 1 January 2023	37	49,231	2,727,820	732	3,195	5,854	(1,033,473)	1,753,359
Total comprehensive income for the year		–	–	–	–	–	(30,850)	(30,850)
Dividends approved in respect of the previous year	33(b)(ii)	–	–	–	–	–	(100,459)	(100,459)
Repurchase of own shares	33(c)	(176)	(20,208)	176	–	–	–	(20,208)
Balance at 31 December 2023	37	49,055	2,707,612	908	3,195	5,854	(1,164,782)	1,601,842

(b) Dividends

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

	2023 RMB'000	2022 RMB'000
Dividend proposed after the end of the reporting period of RMB0.0400 per ordinary share (2022: RMB0.0362 per ordinary share)	**111,063**	100,707

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

33 Capital, reserves and dividends (continued)

(b) Dividends (continued)

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

	2023 RMB'000	2022 RMB'000
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0362 per ordinary share (2022: RMB0.0594 per ordinary share)	**100,459**	165,429

In respect of the final dividend for the year ended 31 December 2022, there is a difference of RMB248,000 between the final dividend disclosed in the 2022 annual financial statements and amounts approved and paid during the year, which is mainly due to the change in number of ordinary shares arising from repurchase and cancellation of shares from March to May 2023 and the RMB/HKD exchange rate difference between the fixed middle average exchange rate on the date of the 2022 annual result announcement and the actual exchange rate applied on the date of payment.

(c) Repurchase of own shares

During 2023, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000
April and May 2023	10,000,000	2.46	2.17	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 year ended 31 December 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.

33 Capital, reserves and dividends (continued)

(d) Acquisition of non-controlling interests

On 4 April 2023, the Group acquired the 1.55% equity interest in TG Tech held by the non-controlling shareholders, increasing its equity interest to 75.58%. The consideration of the acquisition was RMB35,716,000.

The details of the additional interest acquired in TG Tech are as follows:

	RMB'000
Consideration paid to non-controlling interests	35,716
Fair value of minority shareholder equity on acquisition date	(10,658)
Differences recognized in capital reserves	25,058

(e) Share capital

Issued and fully paid share capital

Authorised:

	2023 and 2022	
	No. of Shares ('000)	Amount USD '000
Ordinary shares of USD0.0025 each (2022: USD0.0025)	4,000,000	10,000

Ordinary shares issued and fully paid:

	2023			2022		
	No. of shares ('000)	**Amount USD '000**	**RMB equivalent '000**	No. of shares ('000)	Amount USD '000	RMB equivalent '000
At 1 January	**2,785,000**	**6,972**	**49,231**	2,795,000	6,997	49,399
Repurchase of own shares	**(10,000)**	**(25)**	**(176)**	(10,000)	(25)	(168)
At 31 December	**2,775,000**	**6,947**	**49,055**	2,785,000	6,972	49,231

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

33 Capital, reserves and dividends (continued)

(f) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The share premium represents the difference between the par value of the shares of the Company and the proceeds received from the issuance of shares or the consideration paid for the repurchased shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account is distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to repay its debts as they fall due in the ordinary course of business.

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

(ii) Capital reserve

The capital reserve comprises the following:

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

— The portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 3(p)(ii); and

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

(iii) Merger reserve

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

33 Capital, reserves and dividends (continued)

(f) Nature and purpose of reserves (continued)

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of Hong Kong subsidiaries and overseas equity-accounted investees. The reserve is dealt with in accordance with the accounting policies set out in Notes 3(a), (b) and (t).

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 3(d)).

(vi) PRC statutory reserves

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

General reserve fund

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

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

Enterprise expansion fund

The enterprise expansion fund can be used to convert into share capital and to develop business.

(g) Distributability of reserves

As at 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,542,830,000 (2022: RMB1,694,347,000). After the end of the reporting period, the directors of the Company proposed a final dividend of RMB0.0400 per ordinary share (2022: RMB0.0362), amounting to RMB72,881,000 (2022: RMB100,707,000). This dividend has not been recognised as a liability at the end of the reporting period.

33 Capital, reserves and dividends (continued)

(h) Capital management

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

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

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

During 2023, the Group's strategy was to maintain a stable adjusted net debt-to-capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group's adjusted net debt-to-capital ratios at 31 December 2023 and 2022 were as follows:

	Note	2023 RMB'000	2022 RMB'000
Current liabilities:			
Interest-bearing borrowings	29	**2,209,423**	1,866,813
Non-current liabilities:			
Interest-bearing borrowings	29	**685,598**	1,028,500
Total debt		**2,895,021**	2,895,313
Add: Proposed dividends	33(b)	**111,063**	100,707
Less: Cash and cash equivalents	27	**(749,087)**	(1,219,843)
Time deposits	26	**(1,307,985)**	(1,341,834)
Adjusted net debt		**949,012**	434,343
Total equity		**7,384,588**	7,141,333
Less: Proposed dividends	33(b)	**(111,063)**	(100,707)
Adjusted capital		**7,273,525**	7,040,626
Adjusted net debt-to-capital ratio		**13%**	6%

34 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, time deposits, pledged deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 13% (2022: 13%) and 37% (2022: 31%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within Titanium alloy ,DS and HSS.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 — 180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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

34 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2023		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**5.0%**	**1,164,532**	**58,097**
1–9 months past due	**5.0%**	**840,878**	**42,187**
9–21 months past due	**10.3%**	**192,544**	**19,788**
More than 21 months past due	**61.0%**	**48,327**	**29,483**
		2,246,281	**149,555**

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	5.0%	867,214	43,326
1–9 months past due	5.0%	650,401	32,437
9–21 months past due	10.9%	127,932	13,933
More than 21 months past due	42.0%	52,306	21,949
		1,697,853	111,645

34 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

Trade receivables (continued)

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2023 **RMB'000**	2022 RMB'000
Balance at 1 January	**111,645**	84,948
Amounts written-off during the year	**(93)**	(233)
Loss allowance recognised during the year	**36,464**	23,505
Exchange gain and loss adjustment	**1,539**	3,425
Balance at 31 December	**149,555**	111,645

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

34 Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's certain financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

		2023 Contractual undiscounted cash outflow				
	Note	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount at 31 December RMB'000**
Trade and other payables	28	**1,583,176**	**–**	**–**	**1,583,176**	**1,583,176**
Interest-bearing borrowings	29	**2,245,960**	**507,497**	**217,373**	**2,970,830**	**2,895,021**
		3,829,136	**507,497**	**217,373**	**4,554,006**	**4,478,197**

		2022 Contractual undiscounted cash outflow				
	Note	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Trade and other payables	28	1,659,779	–	–	1,659,779	1,659,779
Interest-bearing borrowings	29	1,909,241	824,572	272,568	3,006,381	2,895,313
		3,569,020	824,572	272,568	4,666,160	4,555,092

In addition to the above, the Group was also exposed to liquidity risk arising from the redemption features of other financial liability at 31 December 2023, which are further detailed in Note 31.

34 Financial risk management and fair values of financial instruments (continued)

(c) Foreign currency risk

The Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to receivables, payables, borrowings and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily USD, EUR, HKD and THB.

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposures are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the foreign operations into the Group's presentation currency are excluded.

	2023 Exposure to foreign currencies (expressed in RMB)				2022 Exposure to foreign currencies (expressed in RMB)			
	USD RMB'000	**EUR RMB'000**	**HKD RMB'000**	**THB RMB'000**	USD RMB'000	EUR RMB'000	HKD RMB'000	THB RMB'000
Trade and other receivables	**581,050**	**716,450**	**9,768**	**1,882**	173,912	635,734	11,774	–
Cash and cash equivalents	**139,931**	**146,985**	**8,842**	**3,041**	70,787	274,661	7,812	1,661
Trade and other payables	**(3,038)**	**(597,456)**	**–**	**(60,864)**	(2,917)	–	–	–
Interest-bearing borrowings	**(95,007)**	**(465,758)**	**(100,590)**	**–**	(109,263)	(658,650)	(173,402)	–
Net exposure arising from recognised assets and liabilities	**622,936**	**(199,779)**	**(81,980)**	**(55,941)**	132,519	251,745	(153,816)	1,661

34 Financial risk management and fair values of financial instruments (continued)

(c) Foreign currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had increased at that date, assuming all other risk variables remained constant.

	2023		2022	
	Increase in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
USD	**10%**	**52,496**	10%	11,434
EUR	**10%**	**(17,273)**	10%	21,388
HKD	**10%**	**(8,298)**	10%	(15,475)
THB	**10%**	**(4,342)**	10%	136

A decrease in foreign exchange rates would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remained constant.

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis as for 2022.

34 Financial risk management and fair values of financial instruments (continued)

(d) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings, pledged deposits and time deposits.

Pledged bank deposits are not held for speculative purposes but are placed to satisfy conditions for the Group to issue bank acceptance bills and other banking facilities.

Interest-bearing borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in Note 29.

(i) Interest rate risk profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the end of the reporting period:

	2023		2022	
	Effective Interest rate %	**Amount RMB'000**	Effective Interest rate %	Amount RMB'000
Fixed rate instruments				
Interest-bearing borrowings	**2.70%~4.05%**	**986,385**	0.79% ~ 2.84%	231,998
Other financial liability	**4%**	**1,581,250**	4%	1,524,650
Variable rate instruments				
Interest-bearing borrowings	**based on Hibor or Lpr**	**1,908,636**	based on Hibor or Lpr	2,663,315

(ii) Sensitivity analysis

As at 31 December 2023, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB16,309,000 (2022: RMB22,818,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate non-derivative instruments held by the Group, which expose the Group to cash flow interest rate risk at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group. The impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as for 2022.

34 Financial risk management and fair values of financial instruments (continued)

(e) Equity price risk

The Group is mainly exposed to equity price changes arising from equity investments held for non-trading purposes (see Notes 21 and 22).

The Group's equity investments listed on the SESH and the NEEQ that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

Except for the above trading securities, all of the Group's equity investments and units in investment funds are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

At 31 December 2023, it is estimated that an increase/(decrease) of 10% (2022: 10%) in the relevant stock market index (for listed investments), the price/earning or price/book value ratios of comparable listed companies (for unquoted investments) as applicable, with all other variables held constant, would have increased/(decreased) the Group's profit after tax (and retained earnings) and fair value reserve (non-recycling) of consolidated equity as follows:

	2023			2022		
		Effect on profit after tax and retained earnings RMB'000	**Effect on fair value reserve (non-recycling) RMB'000**		Effect on profit after tax and retained earnings RMB'000	Effect on fair value reserve (non-recycling) RMB'000
Changes in the relevant equity price risk variable:						
Increase	**10%**	**7,048**	**8,028**	10%	6,341	8,653
Decrease	**(10%)**	**(7,140)**	**(8,028)**	(10%)	(6,341)	(8,653)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained earnings) and fair value reserve (non-recycling) of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2022.

34 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement

(i) Financial assets measured at fair value

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.

Analysis on fair value measurement of financial instruments are as follows:

	Fair value at 31 December 2023	Fair value measurement at 31 December 2023 categorised into		
	RMB'000	Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SESH	70,446	70,446	–	–
— Listed equity securities — NEEQ	26,820	–	–	26,820
— Unlisted equity securities	1,450	–	–	1,450
— Unlisted units in investment funds	94,124	–	–	94,124
Financial assets at fair value through profit or loss:				
— Listed equity securities	1,111	1,111	–	–
Trade and other receivables:				
— Bills receivable	124,285	–	124,285	–

34 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

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

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 — SESH	76,764	76,764	–	–
— Listed equity securities — NEEQ	28,260	–	–	28,260
— Unlisted equity securities	2,620	–	–	2,620
— Unlisted units in investment funds	82,050	–	–	82,050
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 years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of the 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.

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 21 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.

34 Financial risk management and fair values of financial instruments (continued)

(f) Fair value measurement (continued)

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

Fair value hierarchy (continued)

	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs
Equity securities listed on the NEEQ and unlisted equity securities	Market comparable companies	Discount for lack of marketability	30%

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

	2023 RMB'000	2022 RMB'000
Unquoted equity securities and units in investment fund:		
At 1 January	**112,930**	123,920
Payment for purchase of other financial assets	**16,494**	25,000
Net unrealised losses recognised in other comprehensive income during the year	**(2,610)**	(40,900)
Unrealised fair value changes of other financial assets during the year	**(4,420)**	4,910
At 31 December	**122,394**	112,930

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 equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

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

All financial instruments measured at other than fair value are carried at cost or amortised cost that were not materially different from their fair values as at 31 December 2023 and 31 December 2022.

35 Commitments

Capital commitments outstanding as at 31 December 2023 not provided for in the consolidated financial statements were as follows:

	2023 **RMB'000**	2022 RMB'000
Contracted for:		
— acquisition of property, machinery and equipment	**46,122**	58,268
Authorised but not contracted for:		
— acquisition of property, machinery and equipment	**545,741**	210,718

36 Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 10 and the highest paid employees as disclosed in Note 11, is as follows:

	2023 **RMB'000**	2022 RMB'000
Salaries, allowances and benefits in kind	**4,736**	5,214
Discretionary bonuses	**2,427**	2,470
Contributions to retirement benefit schemes	**72**	65
	7,235	7,749

Total remuneration is included in "staff costs" (see Note 8(b)).

(b) Transactions with related companies

The Group has transactions with a company controlled by Mr. Zhu Xiaokun, one of the controlling shareholders ("Company controlled by Mr. Zhu Xiaokun"), Tianguan Precision prior to the business combination, a company controlled by Mr. Zhu Zefeng, one of the controlling shareholders ("Company controlled by Mr. Zhu Zefeng"), associates and joint ventures. The following is a summary of principal related party transactions carried out by the Group with these related parties for the years presented.

36 Material related party transactions (continued)

(b) Transactions with related companies (continued)

(i) Significant related party transactions

	2023 RMB'000	2022 RMB'000
Sale of goods to:		
Joint ventures	**455,070**	486,074
Associates	**204,280**	387,782
	659,350	873,856
Purchase of goods from:		
Associates	**120**	183
Purchase of service from:		
A joint venture	**–**	516
Acquisition of the equity interest in Tianguan Precision from:		
Company controlled by Mr. Zhu Zefeng	**–**	276,000

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

(ii) Significant related party balances

	2023 RMB'000	2022 RMB'000
Trade and other receivables due from:		
Joint ventures	**624,917**	472,116
Associates	**143,695**	132,393
	768,612	604,509
Trade and other payables due to:		
Associates	**–**	775

37 Company-level statement of financial position

	2023 RMB'000	2022 RMB'000
Non-current assets		
Property, plant and equipment	11	11
Interest in subsidiaries	1,694,093	1,708,481
Interest in associates	5,972	14,934
Other receivables	18	11,774
	1,700,094	1,735,200
Current assets		
Other receivables	–	182,038
Cash and cash equivalents	4,214	11,897
	4,214	193,935
Current liabilities		
Interest-bearing borrowings	100,588	173,402
Other payables	1,878	2,374
	102,466	175,776
Net current (Liabilities)/assets	(98,252)	18,159
Net assets	1,601,842	1,753,359
Capital and reserves		
Share capital	49,055	49,231
Reserves	1,552,787	1,704,128
Total equity	1,601,842	1,753,359

(Expressed in Renminbi unless otherwise indicated)

38 Immediate and ultimate controlling parties

At 31 December 2023, the directors of the Company consider the immediate parents of the Group to be Tiangong Holding Company Limited, which is incorporated in the British Virgin Islands and Sky Greenfield Investment Limited, which is incorporated in the Cayman Islands. Both entities do not produce financial statements available for public use.

At 31 December 2023, the directors of the Company consider the ultimate controlling parties of the Group to be Mr. Zhu Xiaokun, Ms. Yu Yumei and Mr. Zhu Zefeng.

39 Non-adjusting events after the reporting period

After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in Note 33(b).

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7 and IFRS 7, Supplier Finance Arrangements	1 January 2024
Amendments to IAS 1, Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to IAS 1, Non-current Liabilities with Covenants	1 January 2024
Amendments to IFRS 16, Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 21, Lack of Exchangeability	1 January 2025

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

	Year ended 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**5,163,306**	5,066,807	5,744,873	5,220,944	5,369,873
Profit before taxation	**465,470**	519,360	751,655	621,817	450,371
Income tax	**(45,542)**	4,750	(80,025)	(81,495)	(46,353)
Profit for the year	**419,928**	524,110	671,630	540,322	404,018
Other comprehensive (loss)/income for the year	**(20,290)**	(80,721)	12,344	1,955	14,360
Attributable to:					
Equity shareholders of the Company	**349,996**	422,697	676,701	538,979	409,452
Non-controlling interests	**49,642**	20,692	7,273	3,298	8,872
Earnings per share (RMB)					
Basic (RMB)	**0.133**	0.181	0.244	0.209	0.156

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**5,343,324**	5,444,214	4,803,513	4,588,826	4,261,913
Current assets	**8,217,751**	7,918,937	7,761,073	6,609,300	5,954,464
Total assets	**13,561,075**	13,363,151	12,564,586	11,198,126	10,216,377
Liabilities					
Non-current liabilities	**775,909**	1,142,336	1,188,397	750,952	764,909
Current liabilities	**5,400,578**	5,079,482	4,483,632	4,806,865	4,248,334
Total liabilities	**6,176,487**	6,221,818	5,672,029	5,557,817	5,013,243
Equity					
Total equity	**7,384,588**	7,141,333	6,892,557	5,640,309	5,203,134

Note: The results of the Group for the four financial years ended 31 December 2019, 2020, 2021 and 2022 and its assets and liabilities were extracted from previous annual reports, which also set forth the details of the basis of presentation of the combined accounts.

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 Zafeng (Chief Executive Officer)
(appointed on 6 June 2023)
Mr. Wu Suojun
Mr. Jiang Guangqing
Mr. Yan Ronghua (resigned on 6 June 2023)

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

Company Secretary
Mr. Lee Johnly

Authorized Representatives
Mr. Lee Cheuk Yin, Dannis
Mr. Lee Johnly

Audit Committee
Mr. Lee Cheuk Yin, Dannis *(Chairman)*
Mr. Gao Xiang
Mr. Wang Xuesong

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

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

Registered Office in the Cayman Islands
P.O. Box 309
G. T. Ugland House
South Church Street, George Town
Grand Cayman, Cayman Islands

Registered Office in Hong Kong
20/F, Tien Chu Commercial Building
173–174 Gloucester Road
Wanchai
Hong Kong

Principal Place of Business
Zhenjiang City
Jiangsu Province
The PRC

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

Hong Kong Legal Adviser
Reed Smith Richards Butler LLP
17th Floor, One Island East
18 Westlands Road
Taikoo Place, Quarry Bay
Hong Kong

Principal Share Registrar and Transfer Office
Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
Agricultural Bank of China Limited
The Export-import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

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