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Tiangong International Company Limited
天工國際有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

RMB' million (unless otherwise specified)

	Year ended 31 December 2021	Year ended 31 December 2020	Change
Revenue	**5,744.9**	5,220.9	10.0%
Gross profit	**1,405.2**	1,214.0	15.8%
Net profit attributable to equity shareholders of the Company	**664.4**	537.0	23.7%
Basic earnings per share *(RMB)*	**0.244**	0.209	16.7%
Gross profit margin	**24.5%**	23.3%	1.2%
Margin of profit attributable to equity shareholders of the Company	**11.6%**	10.3%	1.3%
Net Assets	**6,892.6**	5,640.3	22.2%
Net Debt (1)	**–**	1,803.9	(100.0%)
Net Gearing (2)	**0.0%**	32.0%	(32.0%)

Notes:

(1) Net debt equal to total bank borrowings less pledged deposits, time deposits and cash and cash equivalents. Net debt of the Group as at 31 December 2021 was nil as total bank borrowings were less than pledged deposits, time deposits and cash and equivalents.

(2) Net gearing is measured as net debt to equity.

The board of directors (the "**Board**") of Tiangong International Company Limited (the "**Company**") is pleased to announce the audited consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2021 and the consolidated statement of financial position of the Group as at 31 December 2021, together with the comparative figures for the same period of 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2021

	Note	**2021** *RMB'000*	2020 *RMB'000*
Revenue	4	**5,744,873**	5,220,944
Cost of sales		**(4,339,675)**	(4,006,964)
Gross profit		**1,405,198**	1,213,980
Other income	5	**129,387**	70,429
Distribution expenses		**(217,737)**	(87,489)
Administrative expenses		**(134,575)**	(105,963)
Research and development expenses		**(273,821)**	(307,738)
Other expenses	6	**(47,274)**	(35,424)
Profit from operations		**861,178**	747,795
Finance income		**27,563**	24,345
Finance expenses		**(159,047)**	(151,654)
Net finance costs	7(a)	**(131,484)**	(127,309)
Share of profits/(losses) of associates		**12,543**	(2,195)
Share of profits of joint ventures		**9,418**	3,526
Profit before taxation	7	**751,655**	621,817
Income tax	8	**(80,025)**	(81,495)
Profit for the year		**671,630**	540,322
Attributable to:			
Equity shareholders of the Company		**664,371**	537,024
Non-controlling interests		**7,259**	3,298
Profit for the year		**671,630**	540,322
Earnings per share *(RMB)*	9		
Basic		**0.244**	0.209
Diluted		**0.244**	0.209

Note: Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 13(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	2020
	RMB'000	*RMB'000*
Profit for the year	**671,630**	540,322
Other comprehensive income for the year (after tax adjustment)		
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 RMB1,696,000 (2020: RMB760,000))	**24,430**	(4,840)
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 (2020: nil))	**(12,086)**	6,795
Other comprehensive income for the year	**12,344**	1,955
Total comprehensive income for the year	**683,974**	542,277
Attributable to:		
Equity shareholders of the Company	**676,701**	538,979
Non-controlling interests	**7,273**	3,298
Total comprehensive income for the year	**683,974**	542,277

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment		**4,273,366**	4,136,546
Lease prepayments		**163,214**	147,576
Intangible assets		**16,942**	18,842
Goodwill		**21,959**	21,959
Interest in associates		**61,814**	55,573
Interest in joint ventures		**38,699**	28,350
Other financial assets		**185,310**	135,810
Deferred tax assets		**42,209**	44,170
		4,803,513	4,588,826
Current assets			
Financial assets at fair value through profit or loss		**1,651**	877,117
Inventories		**2,277,610**	1,688,371
Trade and other receivables	10	**2,131,259**	2,481,866
Pledged deposits		**244,191**	384,700
Time deposits		**1,749,481**	350,000
Cash and cash equivalents		**1,356,881**	827,246
		7,761,073	6,609,300
Current liabilities			
Interest-bearing borrowings		**1,600,786**	2,773,982
Trade and other payables	11	**1,373,841**	1,618,745
Current taxation		**40,955**	64,138
Other financial liability	12	**1,468,050**	350,000
		4,483,632	4,806,865
Net current assets		**3,277,441**	1,802,435
Total assets less current liabilities		**8,080,954**	6,391,261

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2021

	2021	2020
	RMB'000	*RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**1,038,000**	591,837
Deferred income	**50,306**	58,082
Deferred tax liabilities	**100,091**	101,033
	1,188,397	750,952
Net assets	**6,892,557**	5,640,309
Capital and reserves		
Share capital	**49,399**	46,186
Reserves	**6,580,846**	5,424,038
Total equity attributable to equity shareholders of the Company	**6,630,245**	5,470,224
Non-controlling interests	**262,312**	170,085
Total equity	**6,892,557**	5,640,309

NOTES

1. REPORTING ENTITY

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

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.

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 3(a) 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.

The financial information relating to the year ended 31 December 2021 that is included in this preliminary annual results announcement does not constitute the Group's consolidated financial statements for the year ended 31 December 2021 but is derived from those financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION AND DISCLOSURES

(a) Changes in accounting policies

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

- Amendment to IFRS 16, *Covid-19-related rent concessions*

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents mainly the sales value of high alloy steel, (including die steel ("**DS**") and high speed steel ("**HSS**")), cutting tools, titanium alloy and trading of goods after eliminating intercompany transactions. Further details regarding the Group's revenue are disclosed in Note 4(b).

(i) Disaggregation of revenue

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

	2021	2020
	RMB'000	*RMB'000*
DS	**2,391,914**	2,351,218
HSS	**1,005,436**	775,501
Cutting tools	**1,057,984**	875,166
Titanium alloy	**263,146**	170,474
Trading of goods	**1,026,393**	1,048,585
	5,744,873	5,220,944

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 Notes 4(b)(iii).

The Group's customer base is diversified and includes nil customer (2020: one customer) with whom transactions have exceeded 10% of the Group's revenue. In 2020, revenue from trading of goods to this customer amounted to RMB702,303,000 and arose in the PRC in which trading of goods segment is active.

(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.

(b) Segment reporting

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

– *DS*	The DS segment manufactures and sells materials that are used in the die set manufacturing industry.
– *HSS*	The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.
– *Cutting tools*	The cutting tools segment manufactures and sells HSS and carbide cutting tools to the tooling industry.
– *Titanium alloy*	The titanium alloy segment manufactures and sells titanium alloy to the titanium industry.
– *Trading of goods*	The trading of goods segment sells general carbon steel products that are not within the Group's production scope.

(i) Segment results, assets and liabilities

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

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

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 2021 and 2020 is set out below.

	Year ended and as at 31 December 2021					
	DS	**HSS**	**Cutting tools**	**Titanium alloy**	**Trading of goods**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**2,391,914**	**1,005,436**	**1,057,984**	**263,146**	**1,026,393**	**5,744,873**
Inter-segment revenue	**–**	**304,058**	**–**	**–**	**–**	**304,058**
Reportable segment revenue	**2,391,914**	**1,309,494**	**1,057,984**	**263,146**	**1,026,393**	**6,048,931**
Reportable segment profit (adjusted EBIT)	**336,391**	**312,359**	**236,846**	**22,098**	**306**	**908,000**
Reportable segment assets	**4,559,564**	**2,733,938**	**1,038,044**	**495,080**	**22,000**	**8,848,626**
Reportable segment liabilities	**688,833**	**438,775**	**206,843**	**46,361**	**22,000**	**1,402,812**

	Year ended and as at 31 December 2020					
	DS	HSS	Cutting tools	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	2,351,218	775,501	875,166	170,474	1,048,585	5,220,944
Inter-segment revenue	–	493,172	–	–	–	493,172
Reportable segment revenue	2,351,218	1,268,673	875,166	170,474	1,048,585	5,714,116
Reportable segment profit (adjusted EBIT)	410,079	284,953	103,195	12,981	391	811,599
Reportable segment assets	4,639,627	1,998,369	1,285,545	521,917	7	8,445,465
Reportable segment liabilities	1,018,505	339,601	206,729	71,653	–	1,636,488

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

	2021	2020
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**6,048,931**	5,714,116
Elimination of inter-segment revenue	**(304,058)**	(493,172)
Consolidated revenue *(Note 4(a))*	**5,744,873**	5,220,944

	2021	2020
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**908,000**	811,599
Net finance costs	**(131,484)**	(127,309)
Share of profit/(losses) of associates	**12,543**	(2,195)
Share of profits of joint ventures	**9,418**	3,526
Unallocated head office and corporate expenses	**(46,822)**	(63,804)
Consolidated profit before taxation	**751,655**	621,817

	2021	2020
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**8,848,626**	8,445,465
Interest in associates	**61,814**	55,573
Interest in joint ventures	**38,699**	28,350
Other financial assets	**185,310**	135,810
Deferred tax assets	**42,209**	44,170
Financial assets at fair value through profit or loss	**1,651**	877,117
Pledged deposits	**244,191**	384,700
Time deposits	**1,749,481**	350,000
Cash and cash equivalents	**1,356,881**	827,246
Unallocated head office and corporate assets	**35,724**	49,695
Consolidated total assets	**12,564,586**	11,198,126

	2021	2020
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,402,812**	1,636,488
Interest-bearing borrowings	**2,638,786**	3,365,819
Other financial liability	**1,468,050**	350,000
Current taxation	**40,955**	64,138
Deferred tax liabilities	**100,091**	101,033
Unallocated head office and corporate liabilities	**21,355**	40,339
Consolidated total liabilities	**5,672,029**	5,557,817

(iii) Geographical information

The Group's business is managed on a worldwide basis, but participates in four principal economic geographies, the PRC, North America, Europe and Asia (other than the PRC).

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

	2021	2020
	RMB'000	*RMB'000*
Revenue		
The PRC	**3,358,645**	3,598,844
North America	**730,852**	750,489
Europe	**983,936**	591,440
Asia (other than the PRC)	**582,803**	270,904
Others	**88,637**	9,267
Total	**5,744,873**	5,220,944

5 OTHER INCOME

		2021	2020
	Note	***RMB'000***	*RMB'000*
Government grants	(i)	**66,017**	18,682
Sales of scrap materials		**4,356**	9,807
Dividend income	(ii)	**5,077**	3,580
Unrealised fair value changes of other financial assets		**11,502**	–
Realised and unrealised gains on structured deposits		**21,492**	23,759
Net realised and unrealised gains on trading securities		**3,816**	9,393
Indemnity income		**5,031**	–
Gains from disposal of interest in associates		**1,125**	–
Others		**10,971**	5,208
		129,387	70,429

(i) The subsidiaries of the Group, located in the PRC collectively received unconditional grants amounting to RMB58,241,000 (2020: RMB11,866,000) from the local government to reward their contribution to the local economy and encourage technology innovation. The Group also recognised amortisation of government grants related to assets of RMB7,776,000 (2020: RMB6,816,000) during the year ended 31 December 2021.

(ii) The Group received dividends totalling RMB5,077,000 (2020: RMB3,580,000) from listed equity investments and unlisted units in investment funds.

6 OTHER EXPENSES

	2021	2020
	RMB'000	*RMB'000*
Provision for loss allowance on trade and other receivables	**5,318**	6,081
Net losses on disposal of property, plant and equipment	**3,002**	2
Net foreign exchange losses	**36,075**	23,723
Charitable donations	**2,610**	3,205
Unrealised fair value changes of other financial assets	**–**	1,892
Others	**269**	521
	47,274	35,424

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2021	2020
	RMB'000	*RMB'000*
Interest income	**(27,563)**	(24,345)
Finance income	**(27,563)**	(24,345)
Interest on bank loans	**113,261**	172,284
Interest expenses arising on other financial liability	**53,050**	–
Less: interest expenses capitalised into property, plant and equipment under construction*	**(7,264)**	(20,630)
Finance expenses	**159,047**	151,654
Net finance costs	**131,484**	127,309

* The borrowing costs have been capitalised at a rate of 4.10% per annum (2020: 5.23%).

(b) Staff costs

	2021	2020
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**339,922**	242,008
Contributions to defined contribution retirement plans	**20,147**	25,106
	360,069	267,114

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.

(c) Other items

	2021	2020
	RMB'000	*RMB'000*
Cost of inventories*	**4,339,675**	4,006,964
Depreciation of property, plant and equipment	**294,377**	265,788
Amortisation of lease prepayments (right-of-use assets)	**3,417**	2,935
Amortisation of intangible assets	**1,900**	158
Provision for loss allowance on trade and other receivables	**5,318**	6,081
Provision for write-down of inventories	**2,486**	9,461
Auditor's remuneration		
– audit services	**4,030**	2,850
– other services	**–**	1,000

* Cost of inventories includes amounts relating to staff costs, depreciation expenses and provision for write-down of inventories which are also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2021	2020
	RMB'000	*RMB'000*
Current tax		
Provision for PRC taxes	**72,340**	77,328
Provision for/(reversal of) Hong Kong Profits Tax	**3,642**	(1,267)
Provision for Thailand Corporate Income Tax	**1,328**	101
	77,310	76,162
Deferred tax		
Origination and reversal of temporary differences	**2,715**	5,333
	80,025	81,495

(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 (formerly known as "Jiangsu Tiangong Tools Company Limited") ("**TG Tools**"), 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 2021 available to enterprises which qualify as a High and New Technology Enterprise (2020: 15%).

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

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.

(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% (2020: 16.5%) for the year ended 31 December 2021.

(iv) Pursuant to the income tax rules and regulations of Thailand, the Group's subsidiaries in Thailand are liable to Thailand Corporate Income Tax at a rate of 20% (2020: 20%) for the year ended 31 December 2021.

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

	2021	2020
	RMB'000	*RMB'000*
Profit before taxation	**751,655**	621,817
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25% (2020: 25%)	**187,914**	155,454
Effect of preferential tax rates	**(65,478)**	(62,646)
Effect of different tax rates	**(9,331)**	(222)
Effect of change in tax rates	**–**	(171)
Tax effect of unused tax losses not recognised	**2,053**	38
Tax effect of previously unrecognised tax losses now utilised	**(552)**	(2,735)
Tax effect of previously unrecognised temporary difference now recognised	**(6,176)**	–
Tax effect of non-deductible expenses	**8,340**	6,629
Tax effect of non-taxable income	**(4,033)**	(682)
Effect of withholding tax on dividends	**(2,431)**	13,897
Provision of withholding tax arising from intra-group reorganisation	**–**	9,935
Tax effect of bonus deduction for research and development expenses	**(37,533)**	(29,475)
Under/(over)-provision in respect of prior year	**7,252**	(8,527)
Actual tax expense	**80,025**	81,495

9 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 RMB664,371,000 (2020: RMB537,024,000) and the weighted average of 2,723,021,978 ordinary shares (2020: 2,567,069,162 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued ordinary shares at 1 January	**2,595,000,000**	2,569,050,000
Effect of placing and subscription of shares	**128,021,978**	–
Effect of repurchase of shares	**–**	(2,144,789)
Effect of exercise of share options	**–**	163,951
Weighted average number of ordinary shares at 31 December	**2,723,021,978**	2,567,069,162

(b) Diluted earnings per share

The diluted earnings per share for 2021 and 2020 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the year.

10 TRADE AND OTHER RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade receivables	**1,305,126**	1,253,802
Bills receivable	**663,156**	850,660
Less: loss allowance	**(84,948)**	(87,295)
Net trade and bills receivables	**1,883,334**	2,017,167
Prepayments	**132,280**	338,813
Non-trade receivables	**122,278**	130,400
Less: loss allowance	**(6,633)**	(4,514)
Net prepayments and non-trade receivables	**247,925**	464,699
	2,131,259	2,481,866

Substantially all of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

Certain bills receivables held by the Group are achieved by both collecting contractual cash flows and sales, which are measured at fair value through other comprehensive income.

Trade receivables of RMB175,195,000 (2020: RMB160,835,000) have been pledged to a bank as security for the Group's bank loans.

(a) Ageing analysis

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

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**1,498,858**	1,551,164
4 to 6 months	**108,920**	150,412
7 to 12 months	**116,536**	152,501
1 to 2 years	**150,321**	160,480
Over 2 years	**8,699**	2,610
	1,883,334	2,017,167

Trade receivables are due from 90 to 180 days from the date of billing.

(b) Loss allowance of trade receivables

The Group measures loss allowance for trade receivables at an amount equal to lifetime expected credit losses ("**ECLs**"), which is calculated using a provision matrix.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2021		
	Expected loss rate *%*	**Gross carrying amount** ***RMB'000***	**Loss allowance** ***RMB'000***
Current (not past due)	**4.9%**	**878,767**	**43,065**
1–9 months past due	**5.0%**	**237,283**	**11,827**
9–21 months past due	**10.9%**	**168,786**	**18,465**
More than 21 months past due	**57.1%**	**20,290**	**11,591**
		1,305,126	**84,948**

	2020		
	Expected loss rate *%*	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Current (not past due)	0.7%	705,643	4,939
1–9 months past due	6.2%	322,798	19,885
9–21 months past due	18.0%	195,719	35,239
More than 21 months past due	91.2%	29,642	27,032
		1,253,802	87,095

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:

	2021 ***RMB'000***	2020 *RMB'000*
Balance at 1 January	**87,095**	93,710
Amounts written-off during the year	**(5,346)**	(7,982)
Loss allowance recognised during the year	**3,199**	1,367
Balance at 31 December	**84,948**	87,095

11 TRADE AND OTHER PAYABLES

	2021 *RMB'000*	2020 *RMB'000*
Trade and bills payable	**1,181,988**	1,423,598
Contract liabilities	**29,505**	37,351
Non-trade payables and accrued expenses	**162,348**	157,796
	1,373,841	1,618,745

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

	2021 *RMB'000*	2020 *RMB'000*
Within 3 months	**608,438**	695,190
4 to 6 months	**223,973**	200,952
7 to 12 months	**304,886**	477,115
1 to 2 years	**22,688**	15,044
Over 2 years	**22,003**	35,297
	1,181,988	1,423,598

12 OTHER FINANCIAL LIABILITY

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

	2021 *RMB'000*	2020 *RMB'000*
Contingent redeemable capital contributions in a subsidiary	**1,468,050**	350,000

On 28 December 2020, the Company, TG Tools, Jurong Tiangong New Materials Technology Company Limited, China Tiangong (Hong Kong) Company Limited, Precision Tools, TG Aihe, Weijian Tools, Jiangsu Tiangong New Materials Company Limited, TG Development and certain third party investors (the "**Investors**") entered into an investment agreement, pursuant to which the Investors will invest RMB1,415,000,000 to acquire 16.65% of the equity interest in TG Tools (collectively referred to as "**the Investment in TG Tools**"). The Investors are entitled to the same voting rights and dividend rights as other equity holders of TG Tools, whereas certain special rights including redemption, anti-dilution and preferential liquidation rights are granted to the Investors. As at 31 December 2021, the Group received all the 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.

13 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company in respect of the year

	2021	2020
	RMB'000	*RMB'000*
Dividend proposed after the end of the reporting period of RMB0.0594 per ordinary share (2020: RMB0.0732 per ordinary share)	**166,093**	187,958

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.

(b) Dividends payable to equity shareholders of the Company in respect of the previous financial year, approved and paid during the year

	2021	2020
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0732 per ordinary share (2020: RMB0.0545 per ordinary share)	**206,848**	134,091

In respect of the final dividend for the year ended 31 December 2020, there is a difference of RMB18,890,000 (2019: RMB4,210,000) between the final dividend disclosed in the 2020 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 placing and subscription shares on May 2021 and the RMB/HKD exchange rate difference between the fixed middle average exchange rate on the date of the 2020 annual result announcement and the actual exchange rate applied on the date of payment.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
DS	**2,391,914**	**41.6**	2,351,218	45.0	40,696	1.7
HSS	**1,005,436**	**17.5**	775,501	14.8	229,935	29.6
Cutting tools	**1,057,984**	**18.4**	875,166	16.8	182,818	20.9
Titanium alloy	**263,146**	**4.6**	170,474	3.3	92,672	54.4
Trading of goods	**1,026,393**	**17.9**	1,048,585	20.1	(22,192)	(2.1)
	5,744,873	**100.0**	5,220,944	100.0	523,929	10.0

DS – accounted for 41.6% of the Group's revenue in FY 2021

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
DS						
Domestic	**1,216,376**	**50.9**	1,590,257	67.6	(373,881)	(23.5)
Export	**1,175,538**	**49.1**	760,961	32.4	414,577	54.5
	2,391,914	**100.0**	2,351,218	100.0	40,696	1.7

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.

Driven by the increased vaccination rates in 2021, global economy rebounded significantly, especially in high-income and mid-income countries. China's export was stimulated by rapid recovery of the manufacturing industries in Europe and North America. These contributed to the increased overseas demand for DS. As a result, the Group's export revenue increased by 54.5% to RMB1,175,538,000 (2020: RMB760,961,000).

While China's manufacturing industries maintained steady growth, the Group has made a strategic move during the reporting period and concentrated its production capacity to meet the rapidly growing export demand. Domestic revenue recorded a decrease of 23.5% to RMB1,216,376,000 (2020: RMB1,590,257,000).

Overall, sales of the DS segment remained relatively stable at RMB2,391,914,000 (2020: RMB2,351,218,000).

HSS – accounted for 17.5% of the Group's revenue in FY 2021

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
HSS						
Domestic	**570,361**	**56.7**	535,339	69.0	35,022	6.5
Export	**435,075**	**43.3**	240,162	31.0	194,913	81.2
	1,005,436	**100.0**	775,501	100.0	229,935	29.6

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.

As mentioned before, most factories in Europe and North America resumed operations gradually after the extensive rollout of vaccination programs. As an important material for various manufacturing industries, overseas demand for HSS increased in 2021.

HSS export revenue increased significantly by 81.2% to RMB435,075,000 in 2021 (2020: RMB240,162,000).

Domestic demand for HSS maintained a steady growth and revenue from the domestic market increased by 6.5% to RMB570,361,000 (2020: RMB535,339,000).

Overall revenue of HSS in 2021 increased by 29.6% to RMB1,005,436,000 (2020: RMB775,501,000).

Cutting tools - accounted for 18.4% of the Group's revenue in FY 2021

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Cutting tools						
Domestic	**285,420**	**27.0**	256,637	29.3	28,783	11.2
Export	**772,564**	**73.0**	618,529	70.7	154,035	24.9
	1,057,984	**100.0**	875,166	100.0	182,818	20.9

Cutting tools segment includes HSS and carbide cutting tools. HSS cutting tools products can be categorised into four major types – twist drill bits, screw taps, end mills and turning tools. All of these are used in industrial manufacturing. The two main types of HSS cutting tools manufactured by the Group are twist drill bits and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tools production brought us a significant cost advantage over our peers. High-end carbide tools manufactured by the Group mainly comprised of customised carbide tools.

With the recovery of global manufacturing industries, growth was recorded in both domestic and export revenue of cutting tools.

In addition to the recovery of overseas manufacturing industries, DIY demand on cutting tools in North America remained strong in 2021. Driven by demand from both civil and industrial sectors, export revenue increased by 24.9% to RMB772,564,000 (2020: RMB618,529,000).

In domestic market, demand mainly driven by the industrial sector. Increased usage of computer numerical control ("**CNC**") machine tools in various production process boosted the demand of high-end cutting tools. Domestic revenue increased by 11.2% to RMB285,420,000 (2020: RMB256,637,000).

Titanium alloy – accounted for 4.6% of the Group's revenue in FY 2021

	For the year ended 31 December					
	2021		2020		Change	
	RMB'000	***%***	*RMB'000*	*%*	*RMB'000*	*%*
Titanium alloy						
Domestic	**260,095**	**98.8**	168,026	98.6	92,069	54.8
Export	**3,051**	**1.2**	2,448	1.4	603	24.6
	263,146	**100.0**	170,474	100.0	92,672	54.4

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

In 2021, demand for titanium alloy from downstream enterprises has gradually improved after sustained recovery of the domestic economy. Sales volume increased by 50.5% while average selling price increased by 2.6%. Overall revenue, therefore, increased by 54.4% to RMB263,146,000 (2020: RMB170,474,000).

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

Trading of goods

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

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company increased by 23.7% from RMB537,024,000 in 2020 to RMB664,371,000 in 2021. The increase was mainly attributable to (i) increased gross profit margin of the Group's products; (ii) increased government grants received for encouraging technological innovation and rewarding contributions to the local economy and (iii) partially offset by increased distribution expenses as a result of increased sales to overseas markets.

Revenue

Revenue of the Group for 2021 totalled RMB5,744,873,000, representing an increase of 10.0% when compared with RMB5,220,944,000 in 2020. The increase was mainly caused by the increase in revenue from HSS, cutting tools and titanium alloy segments, ranging from 20.9% to 54.4%. DS segment remained stable. The total revenue from the four major production segments increased by 13.1% to RMB4,718,480,000 (2020: RMB4,172,359,000). For the analysis of individual segments, please refer to the "Business Review" section.

Cost of sales

The Group's cost of sales was RMB4,339,675,000 in 2021, representing an increase of 8.3% as compared with RMB4,006,964,000 in 2020, as a result of the increase in revenue.

Gross margin

In 2021, the overall gross margin was 24.5% (2020: 23.3%). Set out below are the gross margin of the five segments of the Group in 2021 and 2020:

	2021	2020
DS	**26.6%**	28.1%
HSS	**32.5%**	28.1%
Cutting tools	**28.4%**	18.9%
Titanium alloy	**16.0%**	18.2%
Trading of goods	**0.03%**	0.04%

DS

In May 2021, the export VAT rebate on DS has been cancelled, thereby reduced the gross margin of DS. As a result, the gross margin of DS decreased from 28.1% in 2020 to 26.6% in 2021.

HSS

The gross margin of HSS increased from 28.1% in 2020 to 32.5% in 2021. The increase was mainly due to an increase in the proportion of high-end products and powder metallurgy products with higher gross margin.

Cutting tools

The gross margin of cutting tools increased from 18.9% in 2020 to 28.4% in 2021. The increase was mainly due to the combined effect of: (i) an increase in production quantity which resulted in a lower average fixed cost per unit; and (ii) increased proportion of high-end tap and milling cutter products which contributed a higher gross margin.

Titanium alloy

The gross margin of titanium alloy segment decreased from 18.2% in 2020 to 16.0% in 2021. As the price of sponge titanium rose in a short period of time, which in turn extruded the gross margin of titanium alloy.

Trading of goods

The gross margin of this segment decreased from 0.04% in 2020 to 0.03% in 2021.

Other income

Other income increased from RMB70,429,000 in 2020 to RMB129,387,000 in 2021. The increase was mainly attributable to an increase in government grants received for encouraging technological innovation and rewarding contribution to the local economy and a net realised and unrealised gains on other financial assets.

Distribution expenses

Distribution expenses in 2021 was RMB217,737,000 (2020: RMB87,489,000). Notwithstanding the resumption of export sales to Europe and North America after the recovery of manufacturing industries, freight and related logistic expenses increased compared to 2020. Tight supply of overseas freight services during the year added further burden to the distribution cost. In 2021, distribution expenses amounted to approximately 3.8% of revenue (2020: 1.7%).

Administrative expenses

Administrative expenses increased from RMB105,963,000 in 2020 to RMB134,575,000 in 2021. The increase was mainly attributable to (i) local government exempted social insurance contribution during the outbreak of COVID-19 in 2020 which was not available in 2021; (ii) organisation of 40th anniversary ceremony event; and (iii) increased sewage charges for complying with new environmental policy. In 2021, administrative expenses amounted to approximately 2.3% of revenue (2020: 2.0%).

Other expenses

Other expenses increased from RMB35,424,000 in 2020 to RMB47,274,000 in 2021.

During the year, RMB appreciated against USD, EUR and HKD. Offsetting the assets and liabilities denominated in foreign currencies, the Group had a net assets position in USD, EUR and HKD. As a result, the Group recognised a net foreign exchange losses of RMB36,075,000 in 2021.

Additional impairment provision of RMB5,318,000 was provided according to the credit loss estimation policy of the Group.

Further to the above, additional charitable donation of RMB2,610,000 were made in 2021. Most of these charitable donation related to assistance against the COVID-19.

Net finance costs

In 2021, the Group incurred lower interest expenses with the decrease in average loan balance and lower interest cost. However, as compare to 2020, additional interest expenses were incurred on other financial liability related to the equity interest in TG Tools invested by certain third party investors. Therefore, the Group's net finance costs increased by 3.3% to RMB131,484,000 (2020: RMB127,309,000).

Income tax

As set out in Note 8 of the consolidated statement of profit or loss, the Group's income tax expense decreased by 1.8% from RMB81,495,000 in 2020 to RMB80,025,000 in 2021. It was mainly due to the additional tax deduction on research and development expenses in 2021.

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 increased by 23.7% from RMB537,024,000 in 2020 to RMB664,371,000 in 2021. The margin of profit attributable to equity shareholders of the Company increased from 10.3% in 2020 to 11.6% in 2021.

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

In 2021, total comprehensive income for the year attributable to equity shareholders of the Company was RMB676,701,000 (2020: RMB538,979,000) 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 RMB12,086,000 (2020: debited RMB6,795,000) related to translation of financial statements of Hong Kong subsidiaries and overseas equity accounted investees.

The Group also recognised a fair value gain in the consolidated statement of profit or loss and other comprehensive income of RMB24,430,000 (2020: loss of RMB4,840,000) 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., 寧波梅山保税港區啟安股權投資合夥企業(有限合夥)(Ningbo Meishan Free Trade Port Qian Equity Investment Partnership (Limited Partnership)*), 中金佳泰叁期(深圳)私募股權投資基金合夥企業(有限合夥) (CICC Jiatai Private Equity Fund III (Shenzhen) Partnership (Limited Partnership)*) and Ji'nan Financial Fosun Weishi Equity Investment Fund Partnership (Limited Partnership). All of these investments were stated at their fair value as at 31 December 2021. Other than the fair value gain, net of tax, of RMB24,430,000 (2020: loss of RMB4,840,000) recorded in the other comprehensive income in 2021, the fair value gain of RMB11,502,000 was recorded in other income (2020: loss of RMB1,892,000 recorded in other expenses) for financial assets measured at fair value through profit or loss during the year.

Trade and bills receivables

Trade and bills receivables decreased from RMB2,017,167,000 in 2020 to RMB1,883,334,000 in 2021, which was mainly due to persevering credit control over the receivables. During the year, loss allowance of trade and bills receivables decreased by RMB2,347,000. On average, the proportion of short-aged trade and bills receivable was higher compared to 2020.

INDUSTRY REVIEW

Marked as the beginning of the "14th Five-Year" Plan, the economic performance in 2021 was satisfactory with total economic volume exceeded RMB110 trillion. During the year, despite the impacts of unfavourable factors such as the pandemic and the flood, and under the pressure of affected supply and demand, China demonstrated strong resilience and made a good start.

The Chinese government has maintained regular pandemic prevention and control measures and targeted pandemic prevention and control measures to ensure a stable socio-economic development space and environment. In particular, supported by the government, the industrial production successfully dealt with a number of unfavourable factors with a continued momentum in overall recovery. In 2021, the added value of industries above designated size increased by 9.6% year-on-year. The utilisation rate of industrial production capacity reached 77.5% while the delivery value for export of industries above designated size increased by 17.7% year-on-year.

In terms of overseas markets, the economies reopened as many countries gradually relaxed their pandemic prevention measures such as lockdown, which released the pent-up demand for steel. Coupled with impacts of the surging international steel price and other factors, China's export of steel rebounded in 2021 after five consecutive years of decline. According to the Ministry of Industry and Information Technology, annual export of steel totalled 66.90 million tons, representing a year-on-year increase 24.6%.

In general, under the promotion of industry transformation and the security and stability of the industrial chain and supply chain by China, the overall steel industry performed well in 2021, and the efficiency of the steel industry achieved historical success. The accumulated operating income of key large and medium-sized iron and steel enterprises in the year was RMB6.93 trillion, an increase of 32.7% year-on-year; the total accumulated profit was RMB 352.4 billion, increased by 59.7% year-on-year, hitting a record high; the sales profit margin reached 5.08%, a rise of 0.85 percentage points as compared to 2020.

MARKET REVIEW

Looking back at the DS market in 2021, against the backdrop of the low-carbon emission in China, the market demand in the second half of 2021 was lower than expected, automobile production declined and home appliances and other manufacturing industries were relatively weak, thus the demand for DS was mediocre. However, for the overseas markets, gradual opening of Europe and the United States and other economies stimulated the demand for DS.

Cutting tools are the main application market for HSS and some alloy steel. In recent years, the transformation and upgrading of the manufacturing industry and the improvement of mechanical properties of processing materials have led to the increasing usage and proportion of advanced cutting materials, such as high-performance HSS and carbide. In addition, more and more downstream enterprises in China have used CNC machine for production, and the corresponding increase in consumer demand for high-end cutting tools has driven the demand for high-end HSS. This has led to a continuous increase in the scale of the domestic cutting tool market. With the higher reliability requirements of high efficiency cutting and CNC tools from the market and the development of metallurgical technology, alloy HSS and ordinary HSS in the low-end market will be gradually eliminated, and high-performance HSS will see a broader development opportunity. According to the "The Economic Operation of the Machine Tool Industry in 2021" issued by the China Machine Tool & Tool Builders' Association, China's export of cutting tools increased by 34.9% to USD3.83 billion year-on-year, while export of metal-cutting machine tools increased by 32.7 % in 2021.

In terms of policy, China has introduced a series of policies to support the development of the special steel industry since 2015, including the inclusion of special steel products in the catalogue of new materials in the 13th Five-Year Plan for the Development of New Materials Industry, and the inclusion of HSS and DS in Made-in-China 2025 Plan, which focuses on the development of advanced basic materials. China has actively promoted the supply-side structural reform of the iron and steel industry, and achieved remarkable results in dealing with excess capacity, rationalizing the industrial structure. Green development, intelligent manufacturing and international cooperation have also made a progress, providing strong support for a healthy development of the society and economy. At the beginning of the "14th Five-Year" Plan, China continued to focus on solving the great pressure of excess capacity, enhancing the green and low-carbon development level and other issues in order to boost a higher quality development of the industry.

Accomplishments

According to the world ranking of HSS and DS (collectively known as alloy tool steel) released by the world's authoritative SMR Steel and Metal Market Research, the Group ranked first in the world in terms of alloy tool steel products output in 2020.

Moreover, HSS of TG Tools qualified for the Manufacturing Individual Champion Product Award in 2021 review.

As a well-known manufacturer of advanced basic materials such as HSS and DS, key strategic materials such as titanium alloy and precision cutting tools, which is a key development focus of China, the Group will further accelerate its transformation and upgrading strategy in 2021, ushering in the key strategic development period with the largest investment in high-tech projects since its establishment.

The 50,000-ton high alloy tool steel new material technology transformation and enhancement project has been completed by the end of 2021. The heavy-duty (7,000 tons) fast forging production line project, the second phase of powder metallurgy project, the second phase of Thailand project, intelligent powder metallurgy tap project and carbide cutting tool project are all under orderly planning and implementation.

In order to meet the needs of business development and maintain capital flexibility, the Group conducted a share placement of 200 million shares in May 2021 in a top-up placement, of which approximately half of the net proceeds of about HKD834 million will be used to expand the Group's industrial park in Thailand and develop new precision tools products, while the remaining net proceeds are intended as general working capital.

The Group's plant in the Rojana Rayong Pluak Daeng Industrial Park, Rayong, Thailand, was completed in September 2020 and commenced mass production in the first quarter of 2021. It is the Group's first highly automated overseas factory for cutting tools, with a current annual production capacity of 48 million pieces. The factory adopted fully automatic production lines, which enables it to achieve higher production efficiency and flexible expansion. The design capacity of 4 million pieces per month was fully achieved during the year.

As for new precision tools, the Group is committed to the research and development of carbide and powder metallurgy taps. Currently, China's carbide products are of middle and low-grade and difficult to meet the needs of the domestic high-end manufacturing industry. Therefore, high-end carbide CNC blades and other high-tech, high value-added carbide products have to be imported from abroad, while the application and demand of powder metallurgy taps continue to increase because of its excellent performance. The Group's research and development of carbide and powder metallurgy taps will bring enormous benefits to the Group and the special new materials industry in China.

In April 2021, TG Tools formally kicked-off the A-share spin-off listing plan, marking a significant milestone for the Group in the capital market. TG Tools, together with its subsidiaries, are engaged in the manufacture and sale of alloy tool steels, whose production processes include conventional metallurgy and powder metallurgy.

FUTURE OUTLOOK

Operation Strategy

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

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

Domestic industry development

Currently, China is still in a stable period of economic recovery after the pandemic. Enterprises are pursuing cost reduction and efficiency enhancement and are actively improving production efficiency to match the national pace. Among them, the steel and special new materials industry continued to record a simultaneous increase in production capacity and output, triggering a rapid rise in commodity prices. Since the beginning of the year, prices for the Group's alloy tool steel products have also risen consecutively due to the rising prices of raw materials such as scrap steel and rare metals.

China will continue to promote the development of steel industry during the "14th Five-Year" plan. In February 2022, Ministry of Industry and Information Technology, National Development and Reform Commission and Ministry of Ecology and Environment published Guiding Opinions on Promoting the High-Equality Development of Steel Industry, which proposed that by 2025, we should strive to achieve basic high-quality development model of the steel industry, which has a reasonable layout structure, stable supply of resources, advanced technology and equipment, outstanding quality brand, high intelligence level, strong global competitiveness and green, low-carbon and sustainable development.

Meanwhile, China has clarified the "30•60 Goals" early on. The Group continues to promote the innovation transformation of products to respond to national steel industry goals and the overall national strategy of carbon peaking and carbon neutrality. In order to keep pace with the market development speed, the "50,000 Tons Alloy Tool Steel Capacity Expansion Project" planned by the Group at the beginning of 2021 was completed before the end of year 2021. The project will mainly focus on high-end alloy tool steel products, including HSS and DS. After the project reaches its planned production capacity, the Group will have a production capacity of 300,000 tons of alloy tool steel. On the basis of expanding capacities, the Group will continue to strengthen the research and development of high-end alloy tool steel, so as to enhance the competitiveness of the Group's products.

As a pioneer in the industry, the Group will continue to be a dominant player in the field of alloy tool steel. As the cornerstone of the manufacturing industry, the Group will take tackling the "bottleneck" technology at the material end as its core task, actively making efforts to ensure the national security need of key special steel material and thriving to achieve key technology breakthroughs and sci-tech self-reliance and self-strengthening at higher levels.

Export operation

Under the prospect that America's inflation growth will continue to rise, Federal Reserve may raise interest rates several times in 2022. The tightening monetary policy stance puts pressure on RMB to depreciate, while exports are likely to be stimulated to increase. Other major overseas steel producing countries, including India and Japan, are facing volatile pandemic situations, which has affected the supply side to a certain extent, thus maybe benefiting China's steel exports. Meanwhile, various countries and regions including Europe and America had successively adopted the stance of "co-existing with the virus" and opened borders, resulting in a rebound of economy and demand, which also benefits China's exports.

Overseas expansion

Being adherent to promoting the globalization strategy, the current overseas layout of the Group is rather diversified, with approximately ten sales office established overseas. During the record year, plants in Rojana Rayong Pluak Daeng Industrial Park, Rayong, Thailand officially commenced its trial production in the first quarter of 2021, becoming an important starting point of overseas expansion. The plant's current production capacity for the first phase is 48 million pieces of cutting tools, while the second phase of the project is expected to finish by the end of 2022, adding 48 million pieces of production capacity, which makes a total of nearly 100 million pieces of production capacity. The Group hopes to continue optimizing and consolidating the current overseas layout in response to the recovery of overseas demand and global uncertain elements.

Product Development Strategy

Powder Metallurgy Industry

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

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

The Group will continue to deepen the transformation of high-end products and make unremitting efforts to invest in the research and development of powder metallurgy. It is expected that the second phase of the powder metallurgy production line will be completed in 2022 as planned, with an additional annual production capacity of 3,000 tons. The total production capacity is expected to further increase to 5,000 tons. At the same time, with the increasing market demand for efficient cutting and CNC tools, it is expected that the proportion of powder metallurgy applications will further increase significantly. The Group is intensively promoting the manufacturing of powder metallurgy HSS cutting tools, including powder metallurgy taps and drill bits. It is expected to achieve import substitution and greatly improve the machine tool processing capacity of China's manufacturing industry.

Carbide Cutting Tools Industry

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

Currently, the Group has formed a subsidiary with certain industry experts for the production of carbide, and has started to participate in the carbide cutting tools market from the raw material end.

Titanium Alloy Industry

Titanium wire made of titanium can be used in downstream scenarios such as eyeglass frames, 3D printing and 3C products. The Group will continue to explore the market of titanium wire by coordinating downstream customers to identify projects that can help them with better application. The Group hopes to move forward to the application scenarios of refined titanium alloys through more R&D application projects, open up the downstream market, and promote higher-quality development.

Marketing Strategy

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

The Group has also been cooperating with downstream heat treatment and cutting suppliers to improve its understanding of customer needs.

Information Technology

In order to cope with the Group's expansion of production capacity, international development, expansion of product lines, more precise and professional production processes and more diversified sales channels, the Group has invested heavily in building a digital information system, "Digital Tiangong", which covers all business areas of the Group. The system completes the digital development of five areas: from sales to payment collection, purchases to payments, planning to resources, manufacturing to costs, and order to delivery. This system effectively improves the performance of network procurement, comprehensively enhances the synergy of the industrial supply chain, greatly enhances the competitiveness of the Group, and make the best preparation for the transformation of the Group to an amoeba management model. In 2022, the Group's information engineering will focus on the Manufacturing Execution System (MES) by collecting more process and production data from factories, with a view to maintaining more accurate production information through the system, so as to better control costs.

After 14 months of successful completion of the first phase of the "Digital Tiangong" project, the second phase of the smart manufacturing project was officially launched in June 2021, which involved a wider range of departments and functions. The Group hopes to accelerate its plans in line with the strategic deployment of the construction of digital China by implementing comprehensive transformation and upgrade, and to lead the change and development of the industry. The Group will accelerate its digitalisation and smart development by gradually implementing informatization, in order to achieve comprehensive management, research and development, as well as overall production technology transformation and upgrade, and to lead the change and development of the industry.

OUR MISSION

The Group has always strived for innovation and advancements in competitiveness to consolidate its leading market position. 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 2021, the Group's current assets included cash and cash equivalents of RMB1,356,881,000, inventories of RMB2,277,610,000, trade and other receivables of RMB2,131,259,000, pledged deposits of RMB244,191,000 and time deposits of RMB1,749,481,000. As at 31 December 2021, the interest-bearing borrowings of the Group were RMB2,638,786,000 (2020: RMB3,365,819,000), RMB1,600,786,000 of which was repayable within one year and RMB1,038,000,000 of which was repayable after more 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 2021, was 0.0% (2020: 43.6%).

After the placings of shares by TG Tools, part of the funds raised were used to repay the bank borrowings. As at 31 December 2021, borrowings of RMB1,757,700,000 were in RMB, USD65,487,367 were in USD, EUR61,942,110 were in EUR and HKD20,000,000 were in HKD. The borrowings of the Group were subject to interest payable at rates ranging from 0.76% to 4.75% 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 RMB542,300,000 (2020: RMB1,307,414,000). The decrease was mainly attributable to: (i) ramp-up of inventories in anticipation of an imminent increase in demand in first half of 2022; and (ii) settlement of trade and other payables made to suppliers near the year end.

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 2021 was 167 days (2020: 156 days). The increase in turnover days of inventory was mainly due to the stock up in preparation for expected sales growth the first half in 2022 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 2021 was 124 days (2020: 146 days) while the turnover days of trade payables for 2021 was 110 days (2020: 127 days).

Accordingly, the Group's cash conversion cycle for 2021 was 181 days (2020: 175 days). The turnover days figures of the Group were quite stable, reflecting tight control over the purchase, production and sales operations by the management. The management will continue to monitor closely the operations in view of the changing business environment.

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 2021, the Group's net increase in property, plant and equipment amounted to RMB136,820,000, which was mainly due to expenditure on production line of powder metallurgy and was financed by a combination of our internal cash resources, operating cashflows and bank borrowings. As at 31 December 2021, capital commitments were RMB1,022,087,000 (2020: RMB544,430,000), of which RMB138,169,000 (2020: RMB69,910,000) were contracted for and RMB883,918,000 (2020: RMB474,520,000) were authorised but not contracted for. The majority of the capital commitments related to the construction of heavy-duty (7,000 tons) fast forging machine production line and powder metallurgy tap production line, second phase of powder metallurgy project, the second phase of Thailand factory and carbide cutting tools project and will be funded by internal resources and operating cash flows of the Group.

PLACING OF SHARES AND USE OF PLACING PROCEEDS

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

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

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

The proceeds from the Placing have been used as follows:

Intended use of proceeds from the placing		Actual use of proceeds (as at 31 December 2021)	Proposed use of the remaining unutilised proceeds (as at 31 December 2021)
(i)	Expansion of the industrial park of the Group in Thailand	HK$19.9 million was used in the expansion of the industrial park of the Group in Thailand	The remaining unutilised proceeds was HK$40.0 million
(ii)	Development of the new precision tools products of the Group	HK$17.7 million was used in development of the new precision tools products of the Group	The remaining unutilised proceeds was HK$341.5 million
(iii)	Replenishment of Group's working capital to procure raw materials and meet any cashflow requirements that may arise from daily operations	HK$415.3 million was used as working capital and for daily operation, including payment of electricity, staff salaries and procurement of raw materials	The remaining unutilised proceeds was nil

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

FOREIGN EXCHANGE EXPOSURE

The Group's revenues were denominated in RMB, USD and EUR, with RMB accounting for the largest portion of 58.5%. 41.5% 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 2021, the Group pledged certain bank deposits amounting to RMB244,191,000 (2020: RMB384,700,000) and certain trade receivables amounting to RMB175,195,000 (2020: RMB160,835,000). The decrease in pledged bank deposits was mainly due to the decrease in the outstanding balance of bank acceptance bills.

EMPLOYEES' REMUNERATION AND TRAINING

As at 31 December 2021, the Group employed 3,108 employees (2020: 3,008 employees). Total staff costs for the year amounted to RMB360,069,000 (2020: RMB267,114,000). The increase was mainly resulted from the increase in production output and cancellation of social insurance COVID-19 exemption policy by the local government. 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.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for transfer from 30 May 2022 to 2 June 2022 (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 2 June 2022, during which period no transfer of issued 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, No. 183 Queen's Road East, Wan Chai, Hong Kong, for registration by no later than 4:30 p.m. on 27 May 2022.

The Board has resolved on 30 March 2022 to recommend the payment of a final dividend of RMB0.0594 per share for the year ended 31 December 2021 (2020: RMB0.0732) to shareholders of the Company whose names appear on the register of members of the Company on 27 June 2022. The register of members will be closed from 28 June 2022 to 30 June 2022, both days inclusive, and the proposed final dividend is expected to be paid on or before 15 July 2022. 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 2 June 2022. 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 27 June 2022.

SHARE OPTIONS SCHEME

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

No share options were granted under the current share option scheme in the financial year ended 31 December 2021 and there were no outstanding share options as at 31 December 2021.

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE

The Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 of the Listing Rules during the year ended 31 December 2021, except for the following deviation:

Code Provision A.6.7*

Code provision A.6.7* of the CG Code stipulates that independent non-executive directors ("**INEDs**") and other non-executive directors should also attend general meetings. Mr. Gao Xiang was unable to attend the annual general meeting of the Company held on 1 June 2021 due to the COVID-19 pandemic.

* The amendments of the CG Code came into effect in 1 January 2022, the original code provision A.6.7 is now re-arranged as C.1.6.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 29 March 2022 to consider and review the 2021 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 2021 annual report and annual financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix10 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 2021.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2021 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our shareholders, customers, the management and employees for their unreserved support to the Group.

By Order of the Board
Tiangong International Company Limited
Zhu Xiaokun
Chairman

Hong Kong, 30 March 2022

As at the date of this announcement, the directors of the Company are:

Executive Directors: ZHU Xiaokun, WU Suojun, YAN Ronghua and JIANG Guangqing

Independent Non-executive Directors: GAO Xiang, LEE Cheuk Yin, Dannis, WANG Xuesong

* *For identification purpose*