

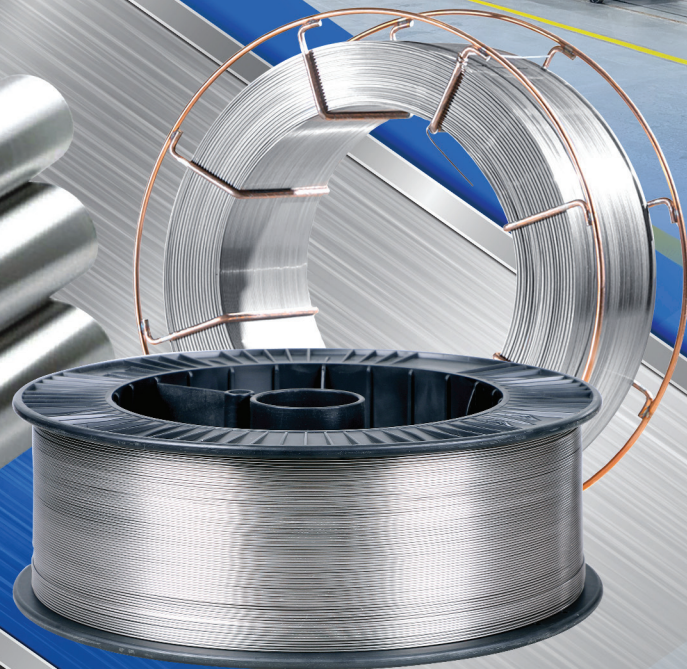
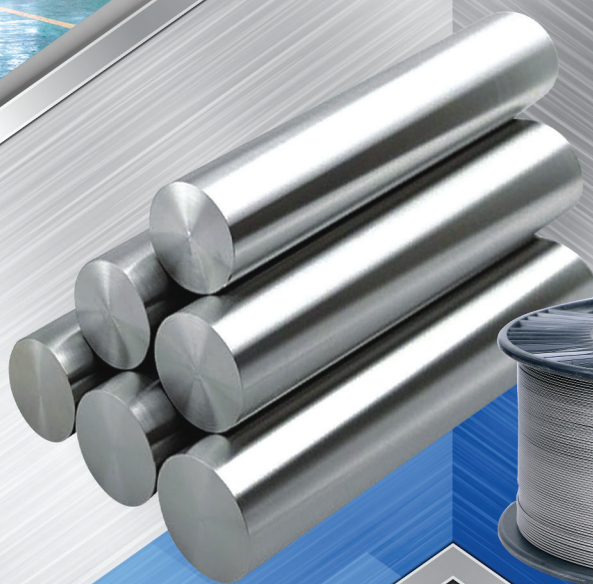


天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 826



Interim Report

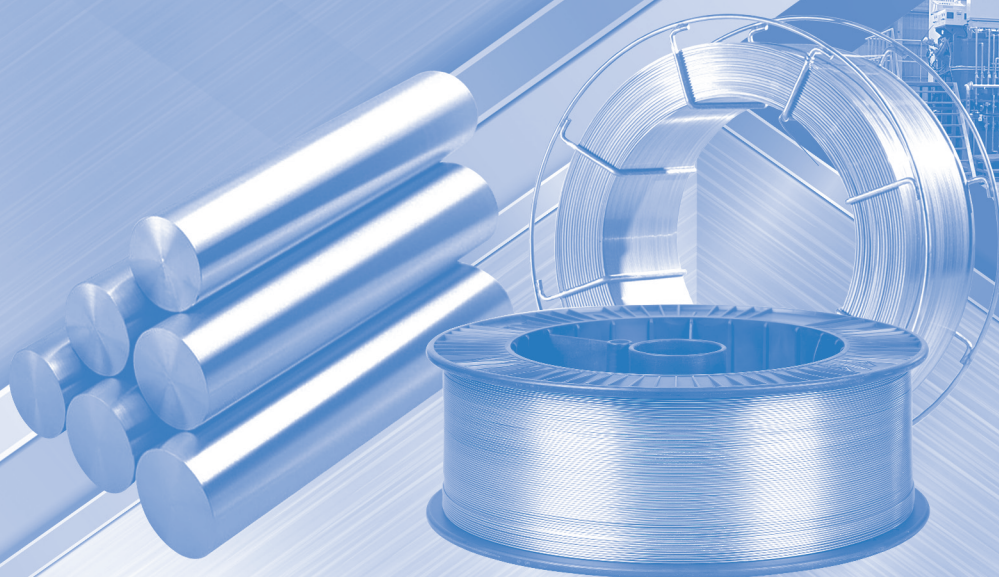
2024



* For identification purposes only

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Corporate Information

REGISTERED NAME

Tiangong International Company Limited

CHINESE NAME

天工國際有限公司

STOCK CODE

Hong Kong Stock Exchange: 826

BOARD OF DIRECTORS

Executive Directors

Mr. Zhu Xiaokun (*Chairman*)

Mr. Zhu Zefeng (*Chief Executive Officer*)

Mr. Wu Suojun

Mr. Jiang Guangqing

Independent Non-executive Directors

Mr. Lee Cheuk Yin, Dannis

Mr. Wang Xuesong

Ms. Qin Ke

COMPANY SECRETARY

Mr. Lee Johnly

AUTHORIZED REPRESENTATIVES

Mr. Lee Cheuk Yin, Dannis

Mr. Lee Johnly

AUDIT COMMITTEE

Mr. Lee Cheuk Yin, Dannis (*Chairman*)

Mr. Wang Xuesong

Ms. Qin Ke

REMUNERATION COMMITTEE

Mr. Wang Xuesong (*Chairman*)

Mr. Zhu Xiaokun

Mr. Lee Cheuk Yin, Dannis

Ms. Qin Ke

NOMINATION COMMITTEE

Mr. Lee Cheuk Yin, Dannis (*Chairman*)

Mr. Zhu Xiaokun

Mr. Wang Xuesong

Ms. Qin Ke

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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PRINCIPAL PLACE OF BUSINESS

Zhenjiang City

Jiangsu Province

The PRC

AUDITORS

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Certified Public Accountants

Public Interest Entity Auditor registered in

accordance with the Accounting and

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Hopewell Center

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Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation

Industrial and Commercial Bank of China Limited

Bank of China Limited

Agricultural Bank of China

The Export-Import Bank of China

The Hongkong and Shanghai Banking Corporation Limited

INVESTOR RELATIONS

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Management Discussion and Analysis

BUSINESS REVIEW

	For the six months ended 30 June					
	2024		2023		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel ("DS")	1,181,417	46.9	1,145,497	45.9	35,920	3.1
High speed steel ("HSS")	436,145	17.3	381,901	15.3	54,244	14.2
Cutting tools	463,607	18.4	447,497	17.9	16,110	3.6
Titanium alloy	384,832	15.2	461,239	18.5	(76,407)	(16.6)
Others	55,647	2.2	60,277	2.4	(4,630)	(7.7)
	2,521,648	100.0	2,496,411	100.0	25,237	1.0

DS – accounted for approximately 46.9% of the Group's revenue in 1H2024

	For the six months ended 30 June					
	2024		2023		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	540,024	45.7	374,722	32.7	165,302	44.1
Export	641,393	54.3	770,775	67.3	(129,382)	(16.8)
	1,181,417	100.0	1,145,497	100.0	35,920	3.1

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

Benefited from the development of the domestic new energy vehicle industry, there was a strong demand for components, component models, and integrated die-casting, leading to an increased demand for DS in applications such as die-casting, stamping, and casting. At the same time, the procurement unit price of the main raw materials for DS increased compared to the same period last year. The transmission of procurement costs resulted in an increase in average selling prices. Domestic revenue of DS segment increased by 44.1% to RMB540,024,000 (1H2023: RMB374,722,000) compared to the same period last year.

Export revenue of DS segment decreased by 16.8% to RMB641,393,000 (1H2023: RMB770,775,000) compared to the same period last year. It was mainly because (1) the significant decline in new overseas construction investments indirectly resulted in a lower demand for large and medium-sized industrial equipment and machinery. This decline in demand also significantly constricted the export market, adversely affecting the export sales of DS. The overall operating hours of Komatsu excavators, which is recognized as one of the key indices reflecting the construction activity in various countries, showed a year-on-year decline in all overseas regions: Japan dropped by 4%, Europe dropped by 9%, North America dropped by 12%, and Indonesia dropped by 3%. This reflected the overseas market are facing certain challenges in the current economic environment; and (2) the development of new energy vehicles overseas was lagging behind that in the domestic market, leading to a slow response to the growth of new energy vehicles. Additionally, the severe decline of traditional fuel vehicles under emission regulations contributed to a decrease in demand for DS. Furthermore, due to the sluggish demand in the overseas market and fierce price competition, resulting in certain pressures on price transmission.

In the first half of 2024, the Group's overall turnover of DS segment increased by 3.1% to RMB1,181,417,000 (1H2023: RMB1,145,497,000).

Management Discussion and Analysis

HSS – accounted for approximately 17.3% of the Group's revenue in 1H2024

	For the six months ended 30 June					
	2024		2023		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	227,657	52.2	182,980	47.9	44,677	24.4
Export	208,488	47.8	198,921	52.1	9,567	4.8
	436,145	100.0	381,901	100.0	54,244	14.2

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

The domestic revenue of HSS segment increased by 24.4% to RMB227,657,000 (1H2023: RMB182,980,000) compared to the same period last year. The manufacturing industry's growing need for upgrading and replacing cutting tools has spurred the development of the domestic HSS market. This increased the demand for raw material HSS among domestic cutting tool manufacturers, leading to growth in domestic revenue of HSS segment.

Export revenue of HSS segment increased by 4.8% to RMB208,488,000 (1H2023: RMB198,921,000), of which the sales volume increased compared with the same period last year, while the average selling price saw a decline. The result is primarily driven by two key factors: (1) the overseas HSS cutting tools market showed improvement compared to the same period last year, leading to an increase in the export volume of HSS used for manufacturing standard HSS cutting tools; and (2) there was intense price competition in overseas markets, and it was necessary to implement a competitive pricing strategy.

Overall turnover of HSS segment increased by 14.2% to RMB436,145,000 (1H2023: RMB381,901,000).

Cutting tools – accounted for approximately 18.4% of the Group's revenue in 1H2024

	For the six months ended 30 June					
	2024		2023		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	168,631	36.4	177,477	39.7	(8,846)	(5.0)
Export	294,976	63.6	270,020	60.3	24,956	9.2
	463,607	100.0	447,497	100.0	16,110	3.6

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

Management Discussion and Analysis

The market conditions for domestic cutting tools are closely related to the machine tool industry. Since last year, the domestic computer numerical control (CNC) machine tool industry has shown an increase in demand for various grade of cutting tools, which stimulated an increase in sales volume but a decreased in average selling prices. Overall, the domestic revenue of cutting tools segment decreased by 5.0% to RMB168,631,000 (1H2023: RMB177,477,000) compared to the same period last year.

The export revenue of cutting tool segment increased by 9.2% to RMB294,976,000 (1H2023: RMB270,020,000) compared to the same period last year. It was mainly due to the overall recovery of the overseas DIY cutting tools market, especially in the North American market. Further, Thailand factory's production capacity offered a competitive pricing, which also stimulated the export sales volume.

In the first half of 2024, the revenue of the Group's cutting tools segment increased by 3.6% to RMB463,607,000 (1H2023: RMB447,497,000).

Titanium alloy – accounted for approximately 15.2% of the Group's revenue in 1H2024

	For the six months ended 30 June					
	2024		2023		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	379,375	98.6	456,278	98.9	(76,903)	(16.9)
Export	5,457	1.4	4,961	1.1	496	10.0
	384,832	100.0	461,239	100.0	(76,407)	(16.6)

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

Consumer electronic industry remained the prime focus of titanium alloy segment. The Group continued to supply titanium alloy wire to consumer electronic industry as the raw material of the frame for high-end smartphones. In order to diversify the dependence on a specific brand and application, the Group began accepting orders from other internationally renowned consumer electronics manufacturers. These new orders were mainly for pure titanium materials. Compared with existing orders of titanium alloy materials, the average selling prices were slightly lower. At the same time, orders for different applications were added to the sales mix to achieve a higher capacity utilization. Overall average selling prices decreased while the sales volume increased during the current period. As a result, the domestic revenue of titanium alloys segment of the current period decreased by 16.9% to RMB379,375,000 (1H2023: RMB456,278,000) compared to the same period last year.

At present, the Group's titanium alloy segment is predominantly focused on the domestic market. However, certain amount of high-end titanium alloy wires were exported to North America as the raw material for the 3D printing application, serving as a touchstone for entering the global market.

Management Discussion and Analysis

Others – accounted for approximately 2.2% of the Group’s revenue in 1H2024

The other segment was the assembly and export sales business derived from the electric tools products of existing cutting tools customers, so as to extend downstream and provide more diversified products and services. By purchasing raw materials like hardware, plastic and electronic components from suppliers, after assembling and packaging, the products were finally sold to overseas customers. The power tools currently sold include electric drill sets, electric batch sets, electric toothbrush sets, hardware sets, small fans and safety lights, etc. The entire segment is an export operation.

	For the six months ended 30 June					
	2024		2023		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Export	55,647	100.0	60,277	100.0	(4,630)	(7.7%)

The main application scenarios of power tools include construction, decoration, etc., and they are highly related to real estate in general. The Group’s power tools sets was mainly sold to customers in U.S. Currently, the U.S. real estate market was characterized as high interest rates, high housing prices, low sales volume and low supply influenced by the Federal Reserve’s cyclical interest rate hikes, revenue in others segment showed a decrease of 7.7% to RMB55,647,000 (1H2023: RMB60,277,000) compared with the same period last year.

FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company decreased by 15.7% from RMB218,700,000 in the first half of 2023 to RMB184,371,000 in the first half of 2024. Detailed review of the individual components were as follows:

Revenue

The recovered domestic demand and market conditions of DS and HSS, coupled with the improved overseas demand for cutting tools, provided a strong support for revenue recovery for these three segments. Although the revenue of titanium alloy segment was impacted by the change in sales product mix, revenue of the Group for the first half of 2024 totalled RMB2,521,648,000, still showed an increase of 1.0% when compared with RMB2,496,411,000 in the first half of 2023. For an analysis of individual segments, please refer to the “Business Review” section.

Cost of sales

The Group’s cost of sales increased from RMB1,926,849,000 for the first half of 2023 to RMB1,963,178,000 for the first half of 2024, representing an increase of 1.9%. The increase was mainly due to the increase in average labour costs and depreciation incurred from capital investments made in recent years.

Management Discussion and Analysis

Gross margin

For the first half of 2024, gross margin was 22.1% (1H2023: 22.8%). Set out below is the gross margin for the five segments of the Group for the first half of 2023 and 2024:

	For the six months ended	
	30 June 2024	2023
DS	13.3%	16.4%
HSS	14.1%	17.6%
Cutting tools	33.1%	24.6%
Titanium alloy	39.0%	31.2%
Others	19.2%	23.2%

DS

The gross margin of DS decreased from 16.4% in 1H2023 to 13.3% in 1H2024. The main reasons were (1) the increase in the cost of raw materials for special steel (DS and HSS). Although the transmission of the increased cost began to recover alongside the resurgence in downstream demand, the results have not yet reached the level observed in the first half of 2023; and (2) in terms of export business, a competitive pricing strategy was adopted to maintain the overseas market share, narrowing the gross margin for the exports.

HSS

Similar situation as DS was noted in HSS segment. Despite higher valued added powder metallurgy products contributed an additional gross margin compared to DS, affected by the decline in the export gross margin caused by the adoption of a competitive pricing strategy, the overall gross margin of HSS decreased from 17.6% in 1H2023 to 14.1% in 1H2024.

Cutting tools

Gross margin of cutting tools increased from 24.6% in 1H2023 to 33.1% in 1H2024. The increase in gross margin was mainly due to (1) the increase in price of HSS as the raw material for cutting tools, which was passed on to the customers; (2) the Group's new coating technology is gradually mastered. Coated cutting tools offered higher gross margin began to be sold in this period; and (3) Thailand factory's full capacity operation offered a high utilization rate and eventually a cost saving.

Titanium alloy

Gross margin of titanium alloy increased from 31.2% in 1H2023 to 39.0% in 1H2024. The market price of its raw material, titanium sponge, decreased in this period, and therefore, the unit cost of titanium alloy wire in this period declined and the gross profit margin increased compared to the same period last year. Additionally, as the production technology became more mature, the quality and yield rate of titanium alloy wire improved, leading to a reduction of the manufacturing costs.

Others

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

Management Discussion and Analysis

Other income

The Group's other income decreased from RMB101,969,000 in the first half of 2023 to RMB48,306,000 in the first half of 2024. It was the combined effect of (1) in the first half of 2023, there was an exchange gain resulted from the significant appreciation of USD and EUR against RMB. There was no such effect in the first half of 2024; (2) the PRC government launched more subsidy projects in the same period last year comparing to the reporting period; and (3) some subsidiaries of the Group qualified as advanced manufacturing enterprise under PRC tax law, entitling them to an additional 5% deduction on input value-added tax. The policy was not available in the same period last year.

Distribution expenses

The Group's distribution expenses were RMB63,686,000 (1H2023: RMB57,238,000), representing an increase of 11.3%. This was mainly caused by the increase in local and export transportation cost. Domestic revenue increased by 11.6% to RMB1,329,097,000 (1H2023: RMB1,191,457,000) and the increase was mainly related to the DS and HSS segments, where the products were all large and heavy special steel modules, causing increase in the local transportation cost. For the export, the unresolved Red Sea Crisis caused a longer route around the Cape of Good Hope. Further, in anticipation of increased tariffs, orders from United States and European Union zone were placed in advance, resulting in tight shipping capacities and high sea freight rates.

Administrative expenses

For the first half of 2024, the Group's administrative expenses was RMB83,348,000 (1H2023: RMB73,409,000) representing an increase of 13.5%. The increase was mainly due to the increase in number of administrative staffs and the bonuses rewarding the outstanding performance of the titanium alloy segment in 2023, causing a higher administrative salaries. For the first half of 2024, administrative expenses as a percentage of revenue was 3.3% (1H2023: 2.9%).

Research and development expenses

With some research and development projects completed in 2023, the number of research and development projects in progress decreased during the first half of 2024. As a result, the research and development expenses decreased from RMB164,091,000 in the first half of 2023 to RMB146,994,000 in the first half of 2024.

Net finance costs

During the reporting period, the Group's average time deposits decreased compared to the same period last year. Finance income decreased accordingly. Regarding finance expenses, the Group switched to loans with lower average interest rate with banks in the PRC during the period.

Combining the above effect, the Group's net finance costs decreased from RMB81,781,000 in the first half of 2023 to RMB75,973,000 in the first half of 2024,

Income tax expense

The Group's income tax expense decreased from RMB24,449,000 in the first half of 2023 to RMB11,943,000 in the first half of 2024. Certain subsidiaries were recognised as high-tech enterprise, where their R&D expenses were given an additional deduction. The additional deduction provided a tax allowance for offsetting future profit. Accordingly, deferred tax asset were recognised and leading to a reduction in total income tax expenses.

Management Discussion and Analysis

Profit for the period

As a result of the factors set out above, the Group's profit decreased by 13.2% to RMB210,239,000 for the first half of 2024 from RMB242,338,000 for the first half of 2023. The Group's net profit margin for the first half of 2024 was 8.3% (1H2023: 9.7%). The decrease was mainly due to sluggish overseas market condition and a decline in demand for DS products, causing a decrease in export revenue in DS segment.

Profit attributable to equity shareholders of the Company

For the first half of 2024, profit attributable to equity shareholders of the Company was RMB184,371,000 (1H2023: RMB218,700,000), representing a decrease of 15.7%.

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 (Limited Partnership)*). All of these investments were stated at their fair value. The movement represented the net increase in fair market value of these financial assets.

Financial assets measured at fair value through profit or loss

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

Trade and bills receivable

Net trade and bills receivable increased from RMB2,915,486,000 as at 31 December 2023 to RMB3,065,606,000 as at 30 June 2024. Loss allowance of RMB159,419,000 (2023: RMB149,555,000) accounted for 4.9% (2023: 4.9%) of the trade and bills receivable.

INDUSTRY REVIEW

In the first half of 2024, China's gross domestic product (GDP) increased by 5%, reaching RMB61.68 trillion and demonstrating a momentum of steady economic recovery. Development in high-end manufacturing was particularly robust, significantly driving domestic demand and therefore furthering investment in the service sector and the manufacturing industry. As a result, China's economy has returned to steady development, which is in line with the national goal of achieving annual economic growth. During the same period, significant growth was recorded for trading in China. In the first quarter of 2024, total foreign trade volume exceeded RMB10 trillion for the first time, where import and export activities further increased by 7.4% quarter-on-quarter in the second quarter of 2024, of which, exports of machinery, electronic products and high-tech goods have distinctly increased. Not only did this development highlight China's rising position in the global value chain, but it also reflected the fruitful outcomes of its strategic diversification and its approach to managing the complex and changing international environment by strengthening domestic economic foundation.

Management Discussion and Analysis

MARKET REVIEW

In the first half of 2024, the performance of high-end manufacturing was extraordinarily impressive, showing the national determination to facilitate technological innovation and high-quality development. During the period, China's industrial output increased by 6%, when the increase for high-tech fields such as 3D printing ever reached 51.6%, denoting that China is gradually reaping her returns from her investment in such technology. Meanwhile, strong demand in domestic and foreign markets for high-end technology was reflected, and support was also given to other economic activities by means of various policies. Driven by fiscal stimulus measures, tax incentives and R&D investment, key emerging fields such as information technology, biotechnology and green energy which are included in her "14th Five-Year Plan" and "Made in China 2025 (中國製造2025)" have all realized rapid development.

During the same period, the industrial output of China's new energy vehicle sector recorded a growth of 34.3%, which was an excellent performance. Such achievement is benefitted from the Action Plan for Large-scaled Equipment Replacement and Trade-in of Consumer Goods (推動大規模設備更新和消費品以舊換新行動方案) implemented by the Chinese government, especially the "Car Trade-in" measure which aims at encouraging consumers to upgrade their cars for more eco-friendly new energy vehicles. Not only did these policies stimulate the demand for new energy vehicles, but also they have driven the development of the automotive steel industry and other related industries. Market demand is expected to show a constant growth, further raising the demand for materials such as tools steel.

At the same time, as integrated die-casting technology becomes increasingly mature, the lightweight vehicle development, overall performance and sustainability of the automotive industry have been tremendously improved, positively influencing the popularity of new energy vehicles, especially electric vehicles, in the market. In order to enhance production efficiency and accuracy, the die-casting industry is transforming towards automation and intelligence, and robotics is widely used to optimize the production processes, to reduce costs and to increase the operating efficiency of the production line. With the continuous advancement in technology and the strong support from national policies, it is expected that the integrated die-casting industry will occupy a more important position in the automotive industry when leading the development of related upstream industries such as mold manufacturing, and will bring unprecedented development opportunities to the ecosystem of the entire automotive industry.

In the first half of 2024, the cutting tool industries, both globally and in China, experienced remarkable growth in market demand. In the United States and Europe, demand has further increased, under higher disposable income per capita and the persistence of a strong DIY culture. According to the statistics from the China Machine Tool Industry Association (中國工具機工具工業協會), in the first half of 2024, tool exports in China reached RMB12.391 billion, representing an annual increase of 9.75%. For the domestic market, manufacturers in China have adopted business models such as OEM and ODM during their cooperation with foreign supermarkets and brands. Not only did this cooperation model strengthen product quality management, but also it could enable domestic manufacturers to learn from international advanced standards, greatly improving the product research and development as well as production management capabilities of domestic manufacturers. This, in turn, has spurred rapid development within the industries in China.

With the optimized upgrade of China's industrial structure, the requirements for processing precision, efficiency and other indicators of machine tools have been refined, especially when the demand for mid-to-high-end CNC machine tools is rising. The support of national policies has played a key role in the development of the tool industries. For example, the national strategy of "Made in China 2025 (中國製造2025)" and the "Solid Industrial Foundation Project (工業強基工程)" aims at developing high-end CNC machine tools and intelligent manufacturing equipment, and encourage enterprises to increase R&D investment through tax incentives and other measures. In addition, with the advancement of Industry 4.0, the application of new technologies such as the Internet of Things, big data and artificial intelligence has provided new opportunities for the development of the tool industries.

Management Discussion and Analysis

During the period under review, China has steady development in her spongy titanium and titanium alloy industries. Under the dual drive of policy support and market demand, it is obvious that products from the industry are more deployed in high-end fields such as aerospace, consumer electronics, medical equipment and advanced industrial manufacturing. The strategic position of the titanium material industry has been particularly emphasized in national strategy of “Made in China 2025 (中國製造2025)” which has clearly pointed out the development needs for high-end CNC machine tools and precision components. Not only did these policies expedite the demand for quality spongy titanium, but also they have promoted the advancement in domestic titanium material processing technology. Domestic securities firms have predicted that China’s production capacity on spongy titanium will reach 424,000 tons in 2026, which will be helpful for the industry to rapidly expand as well as for technology advancement. Improvement in production capacity for high-end spongy titanium in China is gradually alleviating the shortage in supply in the global market. Not only would it relieve the problem of undersupply worldwide, but also it could solidify China’s influence in the international titanium market.

In the field of consumer electronics, by virtue of its light weight and high strength, titanium alloy materials have been widely applied in key components of smartphones and wearable devices such as middle frames of mobile phones as well as hinges and shaft covers (軸蓋) of mobile phones with foldable screen in recent years. In 2023, the use of titanium materials in the 3C (computer, communication and consumer-electronics) field accounted for more than 6%, and the scope of applications is expected to further expand in the future.

In addition, given the 3D printing technology, incredible innovation has appeared for the titanium alloy market. Not only did the application of metal 3D printing technology solve the difficulties and inefficiencies of traditional processing methods for titanium alloy, raise production efficiency and reduce the loss of raw materials, but also it could enhance the flexibility of production processes with its ability to produce complex structures that are difficult to achieve with traditional methods, thereby profoundly improving production capacity and yield. In addition, 3D printing of titanium alloys also supports customized production, which is of great significance to fields such as aerospace and medical services. It signifies that the deep integration of titanium alloy materials and the 3D printing technology will open a new chapter for the development of the titanium alloy market.

With the strategic adjustment on the domestic economic structure as well as industrial transformation and upgrade, the titanium industry is facing opportunities from more high-end manufacturing fields. The growing demand is expected to further underpin the innovation on titanium material technology and the improvement in production efficiency.

According to the statistics of a report published by a leading industry expert, it is also predicted that the global power tool market will continue to grow. In particular, electric tools are expected to maintain a compound annual growth rate of 5.9% from 2020 to 2025. In 2025, the electric tool market is expected to reach USD38.6 billion, with its share to be increased to 75.2% of the entire power tool market. Whether in the domestic or the international markets, regular growth momentum is shown in the power tool and the cutting tool fields. With the application of new technologies and the expansion of market demand, this field is expected to maintain a positive development trend.

Achievement

For the capital market in Hong Kong, China, the Group has been repurchasing our shares since 2023, with 17 repurchases in 2023 involving a total of 10 million repurchased shares. Entering 2024, the Group further increased its efforts thereon, with 49 repurchases during the period under review, and 48.144 million shares have been repurchased cumulatively. The repurchases demonstrate the Group’s confidence in its own share price and has positive expectation for future development and prospects, reflecting the management’s commitment to the Group’s long-term development and shareholders’ interests.

Management Discussion and Analysis

In addition, in July 2024, the Group was included into a basket of value stocks by Hang Seng Indexes Company Limited (HSI Co.), which selects the stocks satisfying relevant parameters from the Hong Kong market (represented by the Hang Seng Composite Index) based on seven conditions including quality, financial leverage, liquidity, earning growth, price-to-earnings ratio, price-to-book ratio and dividend yield. 36 enterprises are selected into a basket of value stocks covering enterprises with high, average or low market value. This selection highlighted the investment value of the Group and was also a significant recognition of the Group's growth potential in the capital market.

FUTURE OUTLOOK

Operation Strategy

The Group has been leading the industry with its professional equipment, technology and management advantages. Over the years, 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 worldleading technology are the three cores of the Group.

Domestic Industry Development

New materials are important support for new industrialization, one of the strategic emerging industries vigorously developed by the country and essential industrial directions for accelerating the development of new productive forces and solidly realizing high-quality development. In recent years, new material industries in China entered the stage of aggressive growth, with the scale of the industries inflating. According to the statistics from the Ministry of Industry and Information Technology of the PRC, more than 7 national innovation centres for manufacturing as to the field of new materials have been established, and 35 key platforms for new materials have been planned and constructed. A number of major key materials and cutting-edge technologies have been making breakthroughs, when the numbers of domestic new material enterprises with qualifying scale, "Small Giant" enterprises with specialized, refined and distinctive operations and outstanding innovation and leading enterprises in each field of the manufacturing industry are rising. National advanced manufacturing clusters are, therefore, gradually emerged.

In recent years, as a result of the rapid development of emerging industries represented by new generations of information technology, new energy, intelligent manufacturing and so forth, more requirements are imposed on materials, speeding up the innovation for new materials. Among them, 3D printing technology and other technologies are deeply integrated with new materials, achieving breakthroughs in the field of material technology. In view of "One generation of materials for one generation of technology" (一代材料，一代技術), the strategic position of the domestic new material industry is currently rising. In recent years, the country has attached great importance to the development of the new materials industry. Hence, relevant departments have successively issued a series of policies and measures such as the Development Guide for New Material Industries (新材料產業發展指南), the National Construction Plan of Demonstration Platform for New Material Production and Application (國家新材料生產應用示範平台建設方案), the Raw Material Industry Development Plan under the "14th Five-Year Plan" (「十四五」原材料工業發展規劃) and the Digital Transformation Work Plan for the Raw Material Industries (2024-2026) (原材料工業數字化轉型工作方案 (二零二四-二零二六年)) to facilitate continuous innovation and development of new material industries.

Management Discussion and Analysis

In the first half of 2024, good development trend was maintained in China's automobile industry. The China Association of Automobile Manufacturers recently pointed out recently that the sales volume of new energy vehicles during the period reached 4.944 million vehicles, representing a year-on-year increase of 32%, and the market share reached 35.2%. It is also predicted that the annual total sales volume of new energy vehicles is expected to reach 11.5 million vehicles in China in 2024. Although anti-globalization and a new round of trade protection measures have brought challenges to the new energy vehicle industry, addressing climate change and achieving green development have emerged as global priorities, ensuring that new energy vehicles will continue to receive widespread attention and application.

In the current new technological era, the titanium alloy industry and the new generation of titanium materials are in front of the tailwind for development, encountering brand-new development opportunities. In addition to being widely used in key fields such as aerospace, automotive industry, chemistry and energy, titanium materials can also be utilized in the field of medical equipment, which is a vital sector for the development of titanium materials. The biocompatibility of titanium makes it an ideal material for manufacturing artificial implants and various types of surgical instruments. Given the intensified ageing of the global population and the advancing medical technologies, the demand for high-performing medical equipment has been growing steadily, further driving the application of titanium materials.

National policy support is indispensable for inducing innovation and development of the titanium industry. In recent years, by formulating policies to encourage technological innovation and providing tax incentives and funding to support scientific research, China is eager in making technological progress on, upgrading and transforming the titanium industry, which is steadily moving towards high-end development with huge development potential.

Export Operation

China has been globalizing her special steel deep processing industry and has been encouraging its high-end development, revealing the strong growth and development potential of the industry. Driven by continued policy support and market demand, the demand for special steel from the perspective of high-end application has kept increasing. With the strengthening of environment protection regulations and the rising demand for high-performing materials with low-environmental impact in the global market, the special steel deep processing business has gradually expanded into the larger international market. Special steel manufacturers in China are perfecting their product quality and reducing their costs through technological innovation and optimized production processes to better adapt to competition in the international market.

The Group has a profound insight into the development trend of the industry and unswervingly promotes the transformation of our products into the field of deep processing. Through this strategic structural alignment, product portfolio of the Group has been optimized, striving to be a leader of the high-end markets. The Group aims at developing and supplying more refined, high value-added tool steel products, catering to the increasing global demand for high-quality special steel.

Overseas Expansion

Guided by its globalization 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.

Management Discussion and Analysis

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 expanding into the high-end market.

In the first half of 2024, the Group continued with the transformation towards high-end powder metallurgy products, vigorously promoted the application of powder metallurgy HSS cutting tools, including powder metallurgy taps and powder metallurgy drill bits and achieved import substitution. As these projects continue to advance, the Group's high-end product matrix has been further improved, driving the steady growth of product sales, unleashing our profitability gradually and, therefore, demonstrating higher competitive advantages and market expansion potential.

In respect of policies, the "Resolution of the Central Committee of the Communist Party of China on Further and Comprehensively Deepening Reform to Advance Chinese Modernization (中共中央關於進一步全面深化改革、推進中國式現代化的決定)" had been reviewed and approved on the Third Plenary Session of the 20th Central Committee of the Communist Party of China (二十屆三中全會). The "Resolution" has indicated that the long-term mechanism by which private enterprises could participate in the construction of major international projects will be improved, to support capable private enterprises in leading major national technological breakthroughs. As the first domestic enterprise equipped with powder metallurgy technology, the Group has ended the foreign monopoly and will continue to benefit from the implementation of the policy in relation to the "Resolution".

Integrated Die-casting of Die Steel Industry

The Group initiated the construction of a 7,000-ton fast forging project in 2022. The goal of this project is to further 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 Tool 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.

During the period under review, the Group achieved a major technological breakthrough in carbide products. Showing excellent product performance, the self-developed double spiral hole rod (雙螺旋孔棒材) has passed the preliminary testing by customers and is ready for mass production and supply. Designed with screw holes for producing internal cooling carbide drills, the bar can effectively reduce the heat generated during high-speed cutting, and thus extend the useful life of the drills, thereby enhancing processing efficiency.

Management Discussion and Analysis

In recent years, the Group has conducted in-depth optimization on the material composition, structure and manufacturing process through numerous experiments, simulation and analyses, and has successfully developed 44 specifications of double spiral hole rod (雙螺旋孔棒材) to meet the production needs of various carbide drills, which gradually increase the market influence of the Group's products in automotive, aerospace and precision mold industries. 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

According to the estimation by a domestic securities firm, the proportion of titanium materials used in the 3C field exceeded 6% in 2023, indicating the widespread use of titanium alloys in the field of consumer electronics. Especially for key parts of high-end smartphones like flat-panel mobile phones and those with foldable screen, the use of titanium alloys in middle frames and hinges is expected to increase significantly. The report has also predicted that the demand for titanium alloy middle frames and hinges in mobile phones between 2024 and 2026 will reach 11,192 tons, 12,756 tons and 14,584 tons, respectively.

Titanium alloy materials is going to become the preferred materials for smartphone manufacturers due to their lightweight and high-strength properties. As technology matures and production efficiency improves, it is expected that titanium alloys will be largely deployed in bulk by first-tier mobile phone manufacturers, driving further growth in the demand for titanium alloys. Considering iPhone and Android phone together, according to a domestic securities firm, the volume of titanium alloy used in middle frames between 2024 and 2026 is expected to reach 12,411.2 tons, 14,136.8 tons and 16,131.6 tons, respectively, reflecting that titanium alloys will be more widely applied in the high-end smartphone market with the formation of scale effect and the continuous improvement in processing.

TG Tech, a subsidiary of the Company, has acquired orders from 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 acquisition of such orders, the average selling price, revenue and business contribution of the Group's titanium alloy segment have significantly increased, becoming a major driving force behind the overall revenue growth of the Group.

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.

Management Discussion and Analysis

3D Metal Printing Industry

Additive manufacturing technology, especially metal 3D printing, continues to demonstrate its importance and widespread application in the high-end manufacturing sector in 2024, the development of which in the fields such as aerospace, medical equipment, automobile manufacturing and consumer electronics is particularly evident.

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. Especially, metal 3D printing technology provides various advantages such as shortened product research and development cycle, efficient formation of intricate structures, integration and lightweight design. Such advantages make additive manufacturing a powerful complement to traditional precision machining, particularly in productions which require a high degree of customization and smaller lot sizes, significantly reducing costs and improving material utilization.

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%, mainly benefitted from the exclusive advantages of metal 3D printing in terms of design flexibility, performance optimization and material saving. In addition, as the technology matures and production efficiency improves, the unimaginable applications of metal 3D printing in traditional fields such as mold manufacturing are gradually emerging, indicating that such technology will continue to expand its influence in the global manufacturing industry in the coming years.

Looking forward, the development direction of metal additive manufacturing will focus on certain key areas, including the optimization of production processes such as the development of combining additive and subtractive manufacturing technologies; increase in the scalability, specialization and intelligence of equipment; variety diversification of raw materials and quality improvement; as well as design optimization, including topology optimization and integrated structural design. Such advancements are expected to further improve the performance and precision of metal additive manufacturing technology, reduce costs and expand its market share in more high-end applications.

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, where the Group's high-end titanium alloy wires have been recognized by well-known overseas manufacturers as raw materials for 3D printing powder. This supports 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.

Management Discussion and Analysis

Green Development

The Group actively advocates for a circular economy model and is committed to recycling and sustainable resource management with a special emphasis on saving materials during our production processes. As a model in the new material industry adopting the shortened production processes, the Group consistently focuses on green development, aiming at building “a garden factory and a civilized enterprise” through recycling waste materials and optimizing production processes to reduce carbon emissions. The Group utilizes electric furnace for short-process smelting to effectively deploy alloys and reuse scrap materials for producing high-quality materials. Not only did such measures optimize production processes, but also they could reduce energy consumption and emissions, greatly enhancing resource efficiency. Moreover, through regular innovation and by means of the production technology for the shortened processes, the Group has significantly streamlined our production cycles and enhanced our product quality control, thereby enabling the market to evolve. This approach has minimized material waste and environmental pollution, further solidifying the Group’s commitment to green production principles.

Relevant policies and industrial guidelines have recognized low-carbon and eco-friendly development as the prerequisite for the survival and growth of advanced material enterprises. Not only did they clarify the social responsibility of corporates, but also they have become the key drivers for the manufacturing industry to move towards high-quality and sustainable development. The Group adheres to the core concept of “Green Development” and would never sacrifice the environment in exchange for business development. Instead, heavy investment has been made into environment protection equipment. For instance, over RMB20 million is invested in a large-scaled wastewater treatment centre and a rooftop photovoltaic project. Not only did such steps improve our environmental, social and governance performance, but also it has demonstrated the Group’s commitment to sustainable development. In the future, while developing our business, the Group will continue to devote itself to the concept of environment protection so as to become a role model for 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.

Management Discussion and Analysis

OUR MISSION

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

We re-affirm our mission to maximise shareholder value, uphold high corporate governance standards and lead the industry to move forward.

FORWARD LOOKING STATEMENTS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2024, the Group's current assets mainly included cash and cash equivalents of RMB1,106,487,000, inventories of RMB2,524,593,000, trade and other receivables of RMB3,696,072,000, time deposits of RMB716,551,000 and pledged deposits of RMB123,981,000. The Group's current assets were RMB8,168,738,000 compared to RMB8,217,751,000 as at 31 December 2023, an decrease of 0.6%.

As at 30 June 2024, interest-bearing borrowings of the Group were RMB2,727,690,000 (31 December 2023: RMB2,895,021,000), RMB2,111,819,000 (31 December 2023: RMB2,209,423,000) of which were repayable within one year and RMB615,871,000 (31 December 2023: RMB685,598,000) of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was 10.5% (31 December 2023: 9.6%).

As at 30 June 2024, interest-bearing borrowings of RMB2,220,023,000 (31 December 2023: RMB2,233,670,000) were denominated in RMB, nil (31 December 2023: USD13,414,000) were denominated in USD, EUR53,038,000 (31 December 2023: EUR52,263,000) were denominated in EUR and HKD111,000,000 (31 December 2023: HKD111,000,000) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 2.70% to 6.43% (31 December 2023: 2.60% to 6.44%) per annum. Net cash generated from operating activities during the period was RMB150,229,000 (1H2023: net cash generated from operating activities RMB153,695,000).

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2024, the Group's net decrease in property, plant and equipment amounted to RMB103,877,000 (1H2023: net increase of RMB31,361,000). The net decrease was mainly caused by the depreciation for the period. As at 30 June 2024, capital commitments were RMB524,981,000 (31 December 2023: RMB591,865,000), of which RMB87,820,000 (31 December 2023: RMB46,122,000) was contracted for and RMB437,161,000 (31 December 2023: RMB545,741,000) was authorised but not contracted for. The majority of capital commitments related to expansion of capacity for titanium alloy segment and upgrade of other production lines.

Management Discussion and Analysis

RISK AND PREVENTION

Operating Exposure

In the first half of 2024, China's economy maintained stable growth, mainly benefited from the steady rebound in consumption and investment and the significant growth in the export of high-tech products. As emphasized in the government's work report, key policies in 2024 are formulated to prompt high-quality development and endeavour to create urban job opportunities. In addition, the government has plans to implement a series of growth-driving measures in the areas of consumption and environment protection to stimulate domestic demand and realize industrial upgrade. In terms of foreign trade, China's total import and export value reached RMB21.17 trillion in the first half of 2024, with an annual growth rate of 6.1%, mainly due to the substantial increase in automobile demand. Moreover, China is also actively expanding economic cooperation with her trading partners, which may be helpful to the further growth of foreign trade. Under the relentless alignment made on domestic economic structure and the regular "open door policy" by the Chinese government, larger support has been given to enterprises to cope with the uncertainty in relation to international economy and trade.

As a renowned manufacturer of advanced basic materials such as HSS, DS, precision cutting tools, and key strategic materials such as titanium alloys, the Group has developed into a high-quality enterprise with global competitiveness as a leading international player in the tools steel industry. The Group continues to concentrate on the field of high-end manufacturing, with a view to ending the foreign monopoly on technology and materializing substitution against import, and also takes the initiative to escalate our market share in the automotive, aerospace and other industries. In recent years, the Group has been committed to promoting vertical integration and transformation by refining its precision manufacturing through penetrating into the entire industry chain, so as to expedite the substitution with domestic products. In face of global macroeconomic uncertainty, the Group keeps exploring new markets to reduce its reliance upon a single economy.

As global energy prices steadily rebound together with policy alignment in countries for new energy vehicles, consumer demand for new energy vehicles may be affected. In many countries, tax incentives and subsidies, in particular, originally intended to market new energy vehicles are being reduced or are expiring gradually. This may lessen consumers' desire to purchase and thus pose challenges to mold steel production that relies on the new energy vehicle market. Therefore, the Group should continuously monitor market trends and flexibly adjust our production strategies to mitigate the operating risks associated with these changes.

Enhancing efficiency and reducing costs are essential strategies for enterprises to boost their competitiveness. Rare metals constitute an integral part of the material cost of the Group's products. The Group has worked closely with its suppliers to strictly control the risk of price fluctuations of rare metals. At the same time, the "Digital Tiangong" project of the Group is carried out smoothly, successfully accelerating the digitalization and information construction and upgrade for our production facilities and strengthening our transparent production management. Technology is deployed to effectively stabilize the labour volatility and implement intelligent logistics, reducing our overall production costs and reinforcing our competitiveness which may further control the risk of rising production costs.

Furthermore, sustainability of the industry is also crucial to high-end manufacturing enterprises. In recent years, the Group has invested a large amount of resources in green development aiming at actively giving a helping hand to the national dual carbon goals. By optimizing our manufacturing processes, innovative technologies and production processes, the Group strives to reduce emissions and consumption and to protect the environment, responding to the national and social expectations for green living with practical actions.

Management Discussion and Analysis

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

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for 52.7% (1H2023: 47.7%). 47.3% (1H2023: 52.3%) of the total sales and operating profit was subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a timely basis to minimise any significant financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 30 June 2024, the Group pledged certain bank deposits amounting to approximately RMB123,981,000 (31 December 2023: RMB129,288,000) and certain intercompany trade receivables amounting to RMB140,347,000 (31 December 2023: RMB161,843,000). Details are set out in the notes to the interim financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2024, the Group employed 3,726 employees (31 December 2023: 3,548). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

CONTINGENT LIABILITIES

Both the Group and the Company had no material contingent liabilities as at 30 June 2024 (31 December 2023: No material contingent liabilities).

MATERIAL ACQUISITIONS AND DISPOSALS

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

SIGNIFICANT INVESTMENTS

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

NO MATERIAL CHANGE

Save as disclosed in this report, information in relation to the Group's performance in the period from 1 January 2024 to 30 June 2024 (the "Reporting Period") for matters set out in paragraph 32 of Appendix D2 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from the information disclosed in the 2023 annual report of the Company.

Report of the Directors

REPORT OF THE DIRECTORS

The board (the “Board”) of directors (the “Directors”) of the Company is pleased to submit the interim report together with the unaudited consolidated financial statements of the Group for the six months ended 30 June 2024 which have been reviewed by the Company’s auditor, KPMG, and the audit committee of the Company (the “Audit Committee”).

INTERIM DIVIDEND

The Board declared an interim dividend payment of RMB0.0203 per share for the six months ended 30 June 2024 (six months ended 30 June 2023: nil). For further details, please refer to the Company’s announcement dated 30 August 2024.

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

As at 30 June 2024, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) were as follows:

(a) Interests in the Company

Director’s name	Interests	Number of ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun ⁽¹⁾⁽⁴⁾	Interests of controlled corporations	774,758,000 (L)	27.92
	Beneficial owner	6,800,000 (L)	0.24
			28.16
Mr. Zhu Zefeng ⁽²⁾⁽³⁾⁽⁴⁾	Interests of controlled corporations	680,926,521 (L)	24.54
	Beneficial owner	1,500,000 (L)	0.05
			24.59
Mr. Wu Suojun ⁽⁴⁾	Beneficial owner	2,400,000 (L)	0.09
Mr. Jiang Guangqing ⁽⁴⁾	Beneficial owner	900,000 (L)	0.03

Notes:

As at 30 June 2024,

- (1) Tiangong Holdings Company Limited (“THCL”) held 774,758,000 ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 774,758,000 shares held by THCL.
 - (2) Sky Greenfield Investment Limited held 636,994,521 ordinary shares. Sky Greenfield Investment Limited was held as to 100% by Zhu Zefeng.
 - (3) Silver Power (HK) Limited, which was wholly owned by Sky Greenfield Investment Limited, held 43,932,000 ordinary shares.
 - (4) From March to June 2024, the Company repurchased a total of 48,144,000 ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited and cancelled all the repurchased shares on 2 July 2024. For further information, please refer to the section headed “PURCHASE, SALES OR REDEMPTION OF SECURITIES” of this report. Therefore, the shareholding percentage of Mr. Zhu Xiaokun, Mr. Zhu Zefeng, Mr. Wu Suojun and Mr. Jiang Guangqing immediately after the cancellation of shares are 28.66%, 25.03%, 0.09% and 0.03%, respectively.
- (L) Represents long position.

Report of the Directors

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total number of Shares	Approximate percentage of interests (%)
Mr. Zhu Xiaokun	THCL	Beneficial owner Spousal interest ⁽¹⁾	44,511 (L) 5,489 (L)	89.02 10.98
Mr. Zhu Xiaokun	Jiangsu Tiangong Technology Company Limited ("TG Tech")	Beneficial owner	14,483,951 (L) ⁽²⁾	2.47
Mr. Zhu Zefeng	Sky Greenfield Investment Limited	Beneficial owner	1 (L) ⁽³⁾	100.00
Mr. Zhu Zefeng	Silver Power (HK) Limited	Beneficial owner	1 (L) ⁽⁴⁾	100.00
Mr. Wu Suojun	TG Tech	Beneficial owner	1,432,195 (L) ⁽⁵⁾	0.24

Notes:

- (1) Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun held 5,489 shares in THCL. Mr. Zhu Xiaokun is deemed to be interested in such 5,489 shares in THCL.
- (2) Mr. Zhu Xiaokun held 14,483,951 shares in TG Tech.
- (3) Mr. Zhu Zefeng held 1 share in Sky Greenfield Investment Limited.
- (4) Sky Greenfield Investment Limited held 1 share in Silver Power (HK) Limited.
- (5) Mr. Wu Suojun held 1,432,195 shares in TG Tech.
- (L) Represents long position.

Save as disclosed above, as at the interim report date, as far as the Directors are aware, none of the Directors and chief executive had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2024, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company and its associated corporations which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

(a) Interests in the Company

Substantial shareholders' name	Nature of interests and capacity	Number of ordinary shares	Approximate attributable interest (%)
Yu Yumei ⁽¹⁾⁽⁶⁾	Spousal interest ⁽²⁾	781,558,000 (L)	28.16
THCL ⁽¹⁾⁽⁶⁾	Beneficial owner	774,758,000 (L)	27.92
Niu Qiu Ping ⁽⁶⁾	Spousal interest ⁽⁵⁾	682,426,521 (L)	24.59
Sky Greenfield Investment Limited ⁽⁶⁾	Beneficial owner ⁽³⁾ Interests of controlled corporations ⁽⁴⁾	636,994,521 (L) 43,932,000 (L)	22.96 1.58
			24.54

(L) Represents long position.

Notes:

- (1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Ms. Yu Yumei.
- (2) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".
- (3) Mr. Zhu Zefeng controlled 100% of Sky Greenfield Investment Limited.
- (4) Silver Power (HK) Limited, which was wholly owned by Sky Greenfield Investment Limited, held 43,932,000 ordinary shares.
- (5) Ms. Niu Qiu Ping is the spouse of Mr. Zhu Zefeng and is deemed to be interested in the shares of the Company held by Mr. Zhu Zefeng. For information in relation to shares of the Company held by Mr. Zhu Zefeng, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (a) Interests in the Company".
- (6) From March to June 2024, the Company repurchased a total of 48,144,000 ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited and cancelled all the repurchased shares on 2 July 2024. For further information, please refer to the section headed "PURCHASE, SALES OR REDEMPTION OF SECURITIES" of this report. Therefore, the shareholding percentage of Ms. Yu Yumei, THCL, Ms. Niu Qiu Ping and Sky Greenfield Investment Limited immediately after the cancellation of shares are 28.66%, 28.41%, 25.03% and 24.97%, respectively.

Report of the Directors

(b) Interests in the shares of associated corporation

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

Notes:

(1) Ms. Yu Yumei is the spouse of Mr. Zhu Xiaokun and is deemed to be interested in the shares of the associated corporations of the Company held by Mr. Zhu Xiaokun. For information in relation to shares of associated corporations of the Company held by Mr. Zhu Xiaokun, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (b) Interests in the shares of associated corporation".

(2) Ms. Niu Qiu Ping is the spouse of Mr. Zhu Zefeng and is deemed to be interested in the shares of the associated corporations of the Company held by Mr. Zhu Zefeng. For information in relation to shares of associated corporations of the Company held by Mr. Zhu Zefeng, please refer to the paragraph headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures — (b) Interests in the shares of associated corporation".

(L) Represents long position.

SHARE SCHEME

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

The purpose of the Share Option Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole. The Share Option Scheme will provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants. The major terms of the Share Option Scheme are as follows:

- 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.

Report of the Directors

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 5.94% 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 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 highest 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 vested on 31 March 2019 as the consolidated audited net profit of the Company for the year ended 31 December 2018 represented an increase of 50% or more as compared to that of the year ended 31 December 2017. The remaining 50% of these share options vested on 31 March 2020 as the consolidated audited net profit of the Company for the year ended 31 December 2019 represented an increase of 50% or more as compared to that of the year ended 31 December 2018. All these options have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period commencing from the relevant vesting date and ending on 31 December of the same year as the vesting date. The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each.

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

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

There were no share options granted since the last grant of options on 11 January 2018 and up till 30 June 2024 and therefore, there were no outstanding share options during the six months ended 30 June 2024.

Report of the Directors

As at 1 January 2024 and 30 June 2024, the number of share options available for grant under the Share Option Scheme was both 162,009,000.

During the six months ended 30 June 2024, the Company did not have any share award scheme in place.

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

During the Reporting Period, the market price range of the Company's shares is HKD1.37 to HKD2.12.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2024, the Company repurchased 48,144,000 shares in total, at an aggregate consideration of HKD82,791,380 (equivalent to approximately RMB75,189,000) on The Stock Exchange of Hong Kong Limited. The shares repurchased were subsequently cancelled on 2 July 2024. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per ordinary shares		Aggregate consideration paid (HKD)
		Highest (HKD)	Lowest (HKD)	
March 2024	1,664,000	1.53	1.37	2,415,900
April 2024	24,950,000	1.87	1.56	42,674,200
May 2024	7,660,000	1.92	1.74	13,962,640
June 2024	13,870,000	1.84	1.53	23,738,640
Total	48,144,000			82,791,380

Save as disclosed, during the six months ended 30 June 2024, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities and the Company does not have any treasury shares, whether registered in its own name or deposited with Central Clearing and Settlement System.

CORPORATE GOVERNANCE

During the six months ended 30 June 2024, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix C1 (formerly, Appendix 14) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 29 August 2024 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2024 interim report and interim financial statements of the Company have complied with the applicable accounting standards and the Company has made appropriate disclosure thereof.

Report of the Directors

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as set out in Appendix C3 (formerly, Appendix 10) of the Listing Rules. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

CHANGE IN INFORMATION OF DIRECTORS

The resignation of Mr. Gao Xiang from his position as an independent non-executive director of the Company took effect on 19 June 2024. On the same date, Ms. Qin Ke was appointed as an independent non-executive director of the Company, following the approval at the Company's annual general meeting. For further information, please refer to the Company's announcements dated 25 April 2024 and 19 June 2024.

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

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

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

— Dividend loan facility amounted to HKD111,000,000

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

Pursuant to the Facilities Agreement, Mr. Zhu Xiaokun and Mr. Zhu Zefeng, the controlling shareholders of the Company, are required to maintain beneficiary interests (direct and indirect) of no less than 45% shareholdings of the Company as long as the facilities are available (the "Specific Performance Obligation").

Breach of the Specific Performance Obligation may lead to the bank declaring the commitments to be cancelled and/or declaring all outstanding amounts together with interest accrued and all other sums payable by the Company and other subsidiaries to be immediately due and payable.

During the term of the Facility Agreement, Mr. Zhu Xiaokun and Mr. Zhu Zefeng collectively held beneficial ownership of more than 45% shareholdings of the Company and there was no breach of Specific Performance Obligation. The term of the Facility Agreement expired on 6 July 2024.

As at the date of this report, the Company has not entered into any other facilities agreement with covenants relating to specific performance of the controlling shareholder of the Company.

By order of the Board

30 August 2024

Independent Review Report



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

for the six months ended 30 June 2024

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 29 to 56 which comprises the consolidated statement of financial position of Tiangong International Company Limited ("the Company") as at 30 June 2024 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2024 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

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

30 August 2024

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2024 (unaudited)

	Note	Six months ended 30 June	
		2024 RMB'000	2023 RMB'000
Revenue	3	2,521,648	2,496,411
Cost of sales		(1,963,178)	(1,926,849)
Gross profit		558,470	569,562
Other income	4	48,306	101,969
Distribution expenses		(63,686)	(57,238)
Administrative expenses		(83,348)	(73,409)
Research and development expenses		(146,994)	(164,091)
Other expenses	5	(15,946)	(32,959)
Profit from operations		296,802	343,834
Finance income		15,082	23,460
Finance expenses		(91,055)	(105,241)
Net finance costs	6(a)	(75,973)	(81,781)
Share of profits less losses of associates		1,758	8,048
Share of profits less losses of joint ventures		(405)	(3,314)
Profit before income tax	6	222,182	266,787
Income tax	7	(11,943)	(24,449)
Profit for the period		210,239	242,338
Attributable to:			
Equity shareholders of the Company		184,371	218,700
Non-controlling interests		25,868	23,638
Profit for the period		210,239	242,338
Earnings per share (RMB)	8		
Basic and diluted		0.067	0.079

The notes on pages 36 to 56 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 19(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2024 (unaudited)

	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Profit for the period	210,239	242,338
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (non-recycling)	5,817	1,457
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 (2023: nil))	(8,122)	(23,583)
Other comprehensive income for the period	(2,305)	(22,126)
Total comprehensive income for the period	207,934	220,212
Attributable to:		
Equity shareholders of the Company	182,013	196,552
Non-controlling interests	25,921	23,660
Total comprehensive income for the period	207,934	220,212

The notes on pages 36 to 56 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2024 (unaudited)

	Note	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Non-current assets			
Property, plant and equipment	9	4,403,041	4,506,918
Lease prepayments		245,942	248,869
Intangible assets		55,231	57,721
Goodwill		144,600	144,600
Interest in associates		100,296	99,181
Interest in joint ventures		26,269	29,823
Other financial assets	10	196,416	192,840
Deferred tax assets		81,496	63,372
		5,253,291	5,343,324
Current assets			
Financial assets measured at fair value through profit or loss (FVPL)		1,054	1,111
Inventories	11	2,524,593	2,477,492
Trade and other receivables	12	3,696,072	3,552,788
Pledged deposits	13	123,981	129,288
Time deposits	14	716,551	1,307,985
Cash and cash equivalents	15	1,106,487	749,087
		8,168,738	8,217,751
Current liabilities			
Trade and other payables	16	1,579,352	1,583,176
Interest-bearing borrowings	17	2,111,819	2,209,423
Other financial liability	18	1,609,550	1,581,250
Current taxation		15,769	26,729
		5,316,490	5,400,578
Net current assets		2,852,248	2,817,173
Total assets less current liabilities		8,105,539	8,160,497

The notes on pages 36 to 56 form part of this interim financial report.

Consolidated Statement of Financial Position

as at 30 June 2024 (unaudited)

	Note	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Non-current liabilities			
Interest-bearing borrowings	17	615,871	685,598
Deferred income		33,808	37,788
Deferred tax liabilities		48,923	52,523
		698,602	775,909
NET ASSETS		7,406,937	7,384,588
CAPITAL AND RESERVES			
Share capital	19	49,055	49,055
Reserves		7,013,251	7,015,500
Total equity attributable to equity shareholders of the Company		7,062,306	7,064,555
Non-controlling interests		344,631	320,033
TOTAL EQUITY		7,406,937	7,384,588

Approved and authorised for issue by the board of directors on 30 August 2024.

)	
Zhu Xiaokun)	
)	
)	Directors
)	
Zhu Zefeng)	
)	

The notes on pages 36 to 56 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2024 (unaudited)

	Attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2023		49,231	2,727,820	732	60,313	91,925	(121,942)	45,354	1,003,872	3,002,979	281,049	7,141,333
Changes in equity for the six months ended 30 June 2023												
Profit for the period		–	–	–	–	–	–	–	–	218,700	23,638	242,338
Other comprehensive income		–	–	–	–	–	(23,595)	1,447	–	–	22	(22,126)
Total comprehensive income		–	–	–	–	–	(23,595)	1,447	–	218,700	23,660	220,212
Dividends approved in respect of the previous year	19(a)	–	–	–	–	–	–	–	–	(100,459)	–	(100,459)
Acquisition of non-controlling interests		–	–	–	(25,058)	–	–	–	–	–	(10,658)	(35,716)
Repurchase of own shares	19(b)	(176)	(20,208)	176	–	–	–	–	–	–	–	(20,208)
Balance at 30 June 2023 and 1 July 2023												
		49,055	2,707,612	908	35,255	91,925	(145,537)	46,801	1,003,872	3,121,220	294,051	7,205,162
Changes in equity for the six months ended 31 December 2023												
Profit for the period		–	–	–	–	–	–	–	–	151,509	26,059	177,568
Other comprehensive income		–	–	–	–	–	10,656	(8,721)	–	–	(77)	1,858
Total comprehensive income		–	–	–	–	–	10,656	(8,721)	–	151,509	25,982	179,426
Transfer to reserve		–	–	–	–	–	–	–	66,814	(66,814)	–	–
Liquidation of subsidiaries		–	–	–	–	–	–	–	(222)	222	–	–
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 36 to 56 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2024 (unaudited)

	Note	Attributable to equity shareholders of the Company										Total equity RMB'000
		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	
Balance at 1 January 2024		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
Changes in equity for the six months ended 30 June 2024												
Profit for the period		-	-	-	-	-	-	-	-	184,371	25,868	210,239
Other comprehensive income		-	-	-	-	-	(8,109)	5,751	-	-	53	(2,305)
Total comprehensive income		-	-	-	-	-	(8,109)	5,751	-	184,371	25,921	207,934
Dividends approved in respect of the previous year	19(a)	-	-	-	-	-	-	-	-	(109,073)	-	(109,073)
Disposal of subsidiaries		-	-	-	-	-	-	-	(105)	105	(1,323)	(1,323)
Disposal and withdrawal of joint ventures		-	-	-	-	-	418	-	-	(418)	-	-
Repurchase of own shares	19(b)	-	(75,189)	-	-	-	-	-	-	-	-	(75,189)
Balance at 30 June 2024		49,055	2,632,423	908	35,255	91,925	(142,572)	43,831	1,070,359	3,281,122	344,631	7,406,937

The notes on pages 36 to 56 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2024 (unaudited)

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	248,442	182,238
Tax paid	(98,213)	(28,543)
Net cash generated from operating activities	150,229	153,695
Investing activities		
Payments for the purchase of property, plant and equipment, lease prepayments and intangible assets	(117,540)	(180,557)
Proceeds/(payments) from time and pledged deposits, net	594,713	(369,941)
Interests received	17,110	23,460
Dividends received from other financial assets	9,412	–
Net cash generated from/(used in) investing activities	503,695	(527,038)
Financing activities		
Proceeds from new interest-bearing borrowings	1,537,824	1,958,226
Repayments of interest-bearing borrowings	(1,692,514)	(1,438,453)
Payments for repurchase of shares	(75,189)	(20,208)
Interest paid	(62,758)	(78,946)
Payment for acquisition of non-controlling interests	–	(35,717)
Net cash (used in)/generated from financing activities	(292,637)	384,902
Net increase in cash and cash equivalents	361,287	11,559
Cash and cash equivalents at 1 January	749,087	1,219,843
Effect of foreign exchange rates changes	(3,887)	14,582
Cash and cash equivalents at 30 June	1,106,487	1,245,984

The notes on pages 36 to 56 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report of Tiangong International Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 30 August 2024.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a period to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2023 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 28.

The financial information relating to the financial year ended 31 December 2023 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current* ("2020 amendments")
- Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants* ("2022 amendments")
- Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*
- Amendments to IAS 7, *Statement of cash flows* and IFRS 7, *Financial instruments: Disclosures — Supplier finance arrangements*

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents mainly the sales value of high alloy steel, (including die steel ("DS") and high speed steel ("HSS")), cutting tools, titanium alloy, and others after eliminating intercompany transactions. Further details regarding the Group's revenue are disclosed in Note 3(b).

Disaggregation of revenue from contracts with customers by product divisions is as follows:

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
DS	1,181,417	1,145,497
HSS	436,145	381,901
Cutting tools	463,607	447,497
Titanium alloy	384,832	461,239
Others	55,647	60,277
	2,521,648	2,496,411

The Group's revenue from contracts with customers was recognised at a point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 3(b)(iii).

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(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting

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

—	<i>DS</i>	The DS segment manufactures and sells materials that are used in the die set manufacturing industry.
—	<i>HSS</i>	The HSS segment manufactures and sells materials that are used in the tools manufacturing industry.
—	<i>Cutting tools</i>	The cutting tools segment manufactures and sells HSS and carbide cutting tools to the tooling industry.
—	<i>Titanium alloy</i>	The titanium alloy segment manufactures and sells titanium alloys to the titanium industry.
—	<i>Others</i>	Others segment assembles and sells power tools 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 sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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

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

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(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

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

	Six months ended 30 June 2024					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	1,181,417	436,145	463,607	384,832	55,647	2,521,648
Inter-segment revenue	–	179,145	2,634	–	–	181,779
Reportable segment revenue	1,181,417	615,290	466,241	384,832	55,647	2,703,427
Reportable segment profit (adjusted EBIT)	30,942	42,137	122,994	119,896	10,590	326,559

	As at 30 June 2024					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets	5,255,802	2,851,745	1,874,739	827,354	227,932	11,037,572
Reportable segment liabilities	653,607	285,671	284,207	241,653	19,717	1,484,855

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3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

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

	As at 31 December 2023					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Others RMB'000	Total RMB'000
Reportable segment assets	5,285,497	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

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3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Revenue	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Reportable segment revenue	2,703,427	2,626,561
Elimination of inter-segment revenue	(181,779)	(130,150)
Consolidated revenue	2,521,648	2,496,411

Profit	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Reportable segment profit	326,559	302,233
Net finance costs	(75,973)	(81,781)
Share of profits less losses of associates	1,758	8,048
Share of profits less losses of joint ventures	(405)	(3,314)
Other unallocated head office and corporate (expenses)/profit	(29,757)	41,601
Consolidated profit before income tax	222,182	266,787

Assets	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Reportable segment assets	11,037,572	10,955,969
Interest in associates	100,296	99,181
Interest in joint ventures	26,269	29,823
Other financial assets	196,416	192,840
Deferred tax assets	81,496	63,372
Financial assets measured at fair value through profit or loss (FVPL)	1,054	1,111
Pledged deposits	123,981	129,288
Time deposits	716,551	1,307,985
Cash and cash equivalents	1,106,487	749,087
Other unallocated head office and corporate assets	31,907	32,419
Consolidated total assets	13,422,029	13,561,075

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(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

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

Liabilities	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Reportable segment liabilities	1,484,855	1,599,014
Interest-bearing borrowings	2,727,690	2,895,021
Current taxation	15,769	26,729
Other financial liability	1,609,550	1,581,250
Deferred tax liabilities	48,923	52,523
Other unallocated head office and corporate liabilities	128,305	21,950
Consolidated total liabilities	6,015,092	6,176,487

(iii) Geographical information

The Group's business is managed on a worldwide basis and divided into four principal economic regions, the People's Republic of China, and for the purposes of this disclosure only and except where the context requires otherwise, excluding Hong Kong, Macao Special Administrative Region and Taiwan (the "PRC"), North America, Europe and Asia (other than the PRC).

In presenting geographical information, segment revenue is based on the geographical location of customers.

Revenue	Six months ended 30 June 2024 RMB'000	2023 RMB'000
The PRC	1,329,097	1,191,457
North America	461,499	482,558
Europe	430,755	553,511
Asia (other than the PRC)	286,312	255,878
Others	13,985	13,007
Total	2,521,648	2,496,411

Notes to the Unaudited Interim Financial Report

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4 OTHER INCOME

	Note	Six months ended 30 June	
		2024 RMB'000	2023 RMB'000
Government grants	(i)	6,837	18,728
Sales of scrap materials and provide manufacturing service		4,237	4,583
Bonus deduction of input Value-added Tax		25,322	–
Net foreign exchange gains		–	66,631
Dividends income		9,412	5,149
Net unrealised fair value changes of other financial assets		–	5,435
Net gains on disposal of property, plant and equipment		462	–
Others		2,036	1,443
		48,306	101,969

- (i) The subsidiaries of the Group located in the PRC, including Jiangsu Tiangong Tools New Materials Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe"), Jiangsu Tiangong Technology Company Limited ("TG Tech"), Jiangsu Weijian Tools Technology Company Limited ("Weijian Tools") and Jurong Tiangong New Materials Technology Company Limited ("TG New Materials"), collectively received unconditional grants amounting to RMB2,857,000 (six months ended 30 June 2023: RMB14,840,000) from the local government. The Group also recognised amortisation of government grants related to assets of RMB3,980,000 (six months ended 30 June 2023: RMB3,888,000) during the six months ended 30 June 2024.

5 OTHER EXPENSES

	Note	Six months ended 30 June	
		2024 RMB'000	2023 RMB'000
Provision for loss allowance on trade and other receivables		9,122	27,456
Charitable donations		2,400	2,873
Net unrealised fair value changes of other financial assets		3,141	–
Net realised and unrealised losses on trading securities		62	17
Losses from disposal of interests in subsidiaries	(i)	185	–
Losses from disposal and withdrawal of interests in joint ventures	(ii)	1	–
Others		1,035	2,613
		15,946	32,959

Notes:

- (i) The subsidiaries are Changzhou Junrui Tools Company Limited ("Changzhou Junrui") and Jiangsu Tiangong New Material Applied Technology Company Limited ("Applied Technology"). Changzhou Junrui is principally engaged in the sale of cutting tools related products in the PRC, and the Group disposed all of its equity interest in Changzhou Junrui at a consideration of RMB2,150,000 on 5 January 2024. Applied Technology is principally engaged in the research and development, manufacture and sale of special steel related product in the PRC, and the Group completed its deregistration on 26 January 2024.
- (ii) The joint ventures included TG Middle East Celik San Ltd. ("TGME") and Five Star Special Steel Europe S.R.L. ("FSS"). TGME is principally engaged in the sale of special steel related products in Turkey. On 5 May 2024, the Group disposed all of its equity interest in TGME at a consideration of nil. FSS is principally engaged in the sale of special steel related products in Italy. On 21 June 2024, the Group withdraw all of its equity interest in FSS at a consideration of approximately RMB3,840,000.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

(a) Net finance costs

	Note	Six months ended 30 June	
		2024 RMB'000	2023 RMB'000
Interest income		(15,082)	(23,460)
Finance income		(15,082)	(23,460)
Interest on bank loans		62,755	76,941
Interest arising on other financial liability	18	28,300	28,300
Finance expenses		91,055	105,241
Net finance costs		75,973	81,781

(b) Other items

	Note	Six months ended 30 June	
		2024 RMB'000	2023 RMB'000
Cost of inventories*		1,963,178	1,926,849
Amortisation of intangible assets		3,960	3,589
Depreciation of property, plant and equipment		193,198	183,287
Amortisation of lease prepayments (right-of-use assets)		2,927	2,902
Provision for write-down of inventories	11	6,897	10,999

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

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7 INCOME TAX

	Six months ended 30 June	
	2024 RMB'000	2023 RMB'000
Current tax		
Provision for PRC Income Tax	30,629	29,175
Provision for Hong Kong Profits Tax	3,234	147
Provision for Thailand Corporate Income Tax	704	149
	34,567	29,471
Deferred tax		
Origination and reversal of temporary differences	(22,624)	(5,022)
	11,943	24,449

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

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

TG Tools, TG Aihe, Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools"), TG Tech and Weijian Tools are subject to a preferential income tax rate of 15% for the six months ended 30 June 2024 available to enterprises which qualify as a High and New Technology Enterprise (six months ended 30 June 2023: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% for the six months ended 30 June 2024 (six months ended 30 June 2023: 25%).

(c) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong are liable to Hong Kong Profits Tax at a rate of 16.5% for the six months ended 30 June 2024 (six months ended 30 June 2023: 16.5%).

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

Pursuant to the income tax rules and regulations of Thailand, Tiangong Special Steel Company Limited ("TGSS"), a subsidiary of the Group in Thailand are liable to Thailand Corporate Income Tax at a rate of 20% for the six months ended 30 June 2024 (six months ended 30 June 2023: 20%).

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8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB184,371,000 (six months ended 30 June 2023: RMB218,700,000) and the weighted average of 2,760,750,961 ordinary shares in issue during the interim period (six months ended 30 June 2023: 2,782,365,956).

(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2024 and 2023 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the periods.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2024, the Group acquired items of property, plant and equipment at a cost of RMB119,762,000 (six months ended 30 June 2023: RMB159,288,000). There were no material disposals of property, plant and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Equity securities designated at fair value through other comprehensive income (FVOCI) (non-recycling)			
— Listed in the PRC	(i)	103,983	97,266
— Unlisted equity securities	(ii)	380	380
Financial assets measured at fair value through profit or loss (FVPL)			
— Unlisted units in investment funds	(iii)	92,053	95,194
		196,416	192,840

Notes:

- (i) The listed equity securities are interests in Bank of Jiangsu Co., Ltd., a company listed on the Mainboard of the Shanghai Stock Exchange ("SSE") and interests in JM Digital Steel Inc., a company listed on the National Equities Exchange and Quotations System ("NEEQ"). The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. Dividends of RMB7,878,000 were received from these investments during the six months ended 30 June 2024 (six months ended 30 June 2023: RMB2,975,000).
- (ii) The unlisted equity security is equity interest in Nanjing Xiaomuma Technology Co., Ltd., a company incorporated in the PRC. The Group designated the investment at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends were received from these investments during the six months ended 30 June 2024 (six months ended 30 June 2023: nil).
- (iii) The unlisted units in investment funds 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 RMB1,534,000 were received from these investments during the six months ended 30 June 2024 (six months ended 30 June 2023: RMB2,174,000).

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11 INVENTORIES

During the six months ended 30 June 2024, the Group recognised a write-down of RMB6,897,000 (six months ended 30 June 2023: RMB10,999,000) against those inventories with net realisable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss.

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Trade receivables	2,352,582	2,246,281
Bills receivable	872,443	818,760
Less: loss allowance	(159,419)	(149,555)
Net trade and bills receivable	3,065,606	2,915,486
Prepayments	206,317	224,199
Non-trade receivables	324,983	311,133
Less: loss allowance	(8,191)	(7,907)
Current taxation	107,357	109,877
Net prepayments and non-trade receivables	630,466	637,302
	3,696,072	3,552,788

As at 30 June 2024, certain intercompany trade receivables of RMB140,347,000 (2023: RMB161,843,000) has been pledged to a bank as security for the Group's bank loans.

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12 TRADE AND OTHER RECEIVABLES (continued)

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Within 1 year	2,799,119	2,723,886
1 to 2 years	255,841	172,756
Over 2 years	10,646	18,844
	3,065,606	2,915,486

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

13 PLEDGED DEPOSITS

As at 30 June 2024, bank deposits of RMB123,981,000 (2023: RMB129,288,000) have been pledged to banks as security for bank acceptance bills and letters of credit of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related letters of credit.

14 TIME DEPOSITS

As at 30 June 2024, time deposits of RMB716,551,000 (2023: RMB1,307,985,000) in the consolidated statement of financial position represent bank deposits that are over 3 months of maturity at acquisition.

15 CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents as at 30 June 2024 are cash at bank and on hand.

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Cash at bank and on hand	1,106,487	749,087

As of the end of the reporting period, cash and cash equivalents situated in Chinese Mainland amounted to RMB900,503,000 (2023: RMB584,841,000). Remittance of funds out of Chinese Mainland is subject to relevant rules and regulations of foreign exchange control.

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16 TRADE AND OTHER PAYABLES

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Trade and bills payable	1,170,067	1,246,803
Contract liabilities	16,705	13,394
Dividends payable	109,073	–
Other payables and accrued expenses	283,507	322,979
	1,579,352	1,583,176

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Within 1 year	1,141,012	1,217,139
1 to 2 years	18,878	17,056
Over 2 years	10,177	12,608
	1,170,067	1,246,803

17 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Current			
Secured bank loans	(i)	125,419	126,046
Unsecured bank loans	(ii)	1,142,650	1,096,913
Current portion of non-current unsecured bank loans		843,750	986,464
		2,111,819	2,209,423
Non-current			
Secured bank loans	(iii)	133,146	140,142
Unsecured bank loans	(iv)	1,326,475	1,531,920
Less: Current portion of non-current unsecured bank loans		(843,750)	(986,464)
		615,871	685,598
		2,727,690	2,895,021

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17 INTEREST-BEARING BORROWINGS (continued)

Notes:

- (i) Current secured bank loan is secured by certain trade receivables at annual interest rates ranging from 3.65% to 4.02% (2023: 4.05%) per annum.
- (ii) Current unsecured bank loans carry interest at annual rates ranging from 2.70% to 6.43% (2023: 2.60% to 6.44%) per annum.
- (iii) Non-current secured bank loans are secured by Precision Tools's share capital at annual interest rate of 3.45% (2023: 3.45%) per annum.
- (iv) Non-current unsecured bank loans carried interest at annual rates ranging from 2.70% to 3.90% (2023: 3.60% to 4.35%) per annum.

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Within 1 year	843,750	986,464
Over 1 year but less than 2 years	311,125	487,365
Over 2 years but less than 5 years	301,600	198,233
Over 5 years	3,146	—
	1,459,621	1,672,062

As at 30 June 2024, the Group's banking facility with banks are subject to the fulfilment of a covenant relating to certain of the Group's subsidiaries' gearing ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenant, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with covenants.

As at 30 June 2024, the Company issued a guarantee to TG Development in respect of bank loans granted to the TG Development, of RMB386,441,000 (31 December 2023: RMB434,712,000).

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18 OTHER FINANCIAL LIABILITY

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Contingent redeemable capital contributions in a subsidiary	1,609,550	1,581,250

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 simple interest method and recognised in the consolidated statement of profit or loss.

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company in respect of the interim period:

	2024 RMB'000	2023 RMB'000
Dividend declared after the end of the reporting period of RMB0.0203 per ordinary share (six months ended 30 June 2023: nil)	55,311	–

The interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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19 CAPITAL, RESERVES AND DIVIDENDS (continued)

(a) Dividends (continued)

- (ii) Dividends payable to equity shareholders attributable to the previous financial year, approved but not paid during the interim period:

	2024 RMB'000	2023 RMB'000
Dividends in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0400 per share (six months ended 30 June 2023: RMB0.0362 per share)	109,073	100,459

In respect of the final dividend for the year ended 31 December 2023, there is a difference of RMB1,990,000 between the final dividend disclosed in the 2023 annual financial statements and amounts approved but not paid during the interim period, which is mainly due to the change in number of ordinary shares arising from repurchase of shares from March to June 2024 and the RMB/HKD exchange rate difference between the fixed middle average exchange rate on the date of the 2023 annual result announcement and the actual exchange rate applied on the date of approval.

(b) Purchase of own shares

During the six months period ended 30 June 2024, the Company repurchased its own shares on the Main Board of The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate amount paid HKD'000
March/April/May/June 2024	48,144,000	1.92	1.37	82,791

In total, the Company repurchased 48,144,000 ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited at a consideration of HKD82,791,000 (equivalent to approximately RMB75,189,000). As of 30 June 2024 the repurchased shares have not been cancelled and the fair value of the repurchased shares has been included in the share premium.

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20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

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

	Fair value at 30 June 2024 RMB'000	Fair value measurement at 30 June 2024 categorised into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SSE	78,238	78,238	—	—
— Listed equity securities — NEEQ	25,745	—	—	25,745
— Unlisted equity securities	1,450	—	—	1,450
— Unlisted units in investment funds	90,983	—	—	90,983
Financial assets at fair value through profit or loss:				
— Listed equity securities	1,054	1,054	—	—
Trade and other receivables:				
— Bills receivable	148,753	—	148,753	—

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20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

(i) Fair value hierarchy (continued)

	Fair value at 31 December 2023 RMB'000	Fair value measurement at 31 December 2023 categorised into		
		Level 1	Level 2	Level 3
Recurring fair value measurement				
Other financial assets:				
— Listed equity securities — SSE	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	—

During the six months ended 30 June 2024, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

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

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20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

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

Notes:

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

The fair value of equity securities is determined using valuation multiples adjusted for changing trend of medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at 30 June 2024, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's other comprehensive income by RMB1,020,000 (2023: RMB1,182,000).

- (ii) The fair value of units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at 30 June 2024, it is estimated that with all other variables held constant, an increase/decrease in fair value of units in investment funds by 5% would have increased/decreased the Group's profit for the period by RMB3,490,000 (2023: RMB3,281,000).

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

	At 30 June 2024 RMB'000	At 30 June 2023 RMB'000
Unquoted equity securities and units in investment funds:		
At 1 January	122,394	112,930
Net unrealised (losses)/gains recognised in other comprehensive income during the period	(1,075)	630
Unrealised fair value changes of other financial assets recognised in profit or loss during the period	(3,141)	5,435
At 30 June	118,178	118,995

Any gains or losses arising from the remeasurement of the Group's listed and unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

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

All financial instruments measured at other than fair value carried at cost or amortised cost were not materially different from their fair values as at 30 June 2024 and 31 December 2023.

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21 COMMITMENTS

Capital commitments outstanding at 30 June 2024 not provided for in the interim financial report

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Contracted for acquisition of property, machinery and equipment	87,820	46,122
Authorised but not contracted for — acquisition of property, machinery and equipment	437,161	545,741
	524,981	591,863

22 RELATED PARTY TRANSACTIONS

The Group had transactions with associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the condensed consolidated interim financial statements, the Group entered into the following related party transactions for the periods presented:

(a) Significant related party transactions

	Six months ended 30 June 2024 RMB'000	2023 RMB'000
Sales of goods to:		
Joint ventures	181,344	221,450
Associates	76,785	92,663
	258,129	314,113

(b) Amounts due from related parties

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Joint ventures	315,186	624,917
Associates	131,830	143,695
	447,016	768,612