Tiangong International Company Limited
天工國際有限公司*
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 826)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

RMB'million (unless otherwise specified)

	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)	**Change**
Revenue	2,670.2	2,616.9	2.0%
Gross profit	655.2	666.2	(1.7%)
Profit attributable to equity shareholders of the Company	295.2	290.5	1.6%
Basic earnings per share *(RMB)*	0.106	0.110	(3.6%)
Diluted earnings per share *(RMB)*	0.106	0.110	(3.6%)
Gross profit margin	24.5%	25.5%	(1.0ppt)
Net profit margin	11.3%	11.3%	–

	At 30 June 2022 (unaudited)	At 31 December 2021 (audited)	**Change**
Net Assets	6,973.3	6,892.6	1.2%
Net Debt(1)	–	–	–
Net Gearing(2)	0.0%	0.0%	–

Notes:

(1) Net debt equals to total interest-bearing borrowings less pledged deposits, time deposits and cash and cash equivalents. Net debt of the Group as at 30 June 2022 was nil as total interest-bearing borrowings were less than pledged deposits, time deposits and cash and cash equivalents.

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

The board (the "Board") of directors (the "Directors") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2022 and the consolidated statement of financial position of the Group as at 30 June 2022 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee"), together with the comparative figures for the same period of 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2022 (unaudited)

		Six months ended 30 June	
		2022	2021
		(unaudited)	(unaudited)
	Note	***RMB'000***	*RMB'000*
Revenue	4	**2,670,160**	2,616,873
Cost of sales		**(2,014,959)**	(1,950,667)
Gross profit		**655,201**	666,206
Other income	5	**73,168**	48,491
Distribution expenses		**(123,095)**	(80,813)
Administrative expenses		**(64,922)**	(64,168)
Research and development expenses		**(138,217)**	(155,551)
Other expenses	6	**(20,633)**	(29,475)
Profit from operations		**381,502**	384,690
Finance income		**22,960**	10,104
Finance expenses		**(86,588)**	(78,139)
Net finance costs	7(a)	**(63,628)**	(68,035)
Share of profits of associates		**11,506**	5,674
Share of (losses)/profits of joint ventures		**(90)**	8,698
Profit before income tax	7	**329,290**	331,027
Income tax	8	**(26,965)**	(36,489)
Profit for the period		**302,325**	294,538
Attributable to:			
Equity shareholders of the Company		**295,198**	290,537
Non-controlling interests		**7,127**	4,001
Profit for the period		**302,325**	294,538
Earnings per share *(RMB)*	9		
Basic and diluted		**0.106**	0.110

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2022 (unaudited)

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Profit for the period	**302,325**	294,538
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	**13,584**	21,888
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of entities with functional currencies other than RMB	**(41,360)**	(386)
Other comprehensive income for the period	**(27,776)**	21,502
Total comprehensive income for the period	**274,549**	316,040
Attributable to:		
Equity shareholders of the Company	**267,314**	311,897
Non-controlling interests	**7,235**	4,143
Total comprehensive income for the period	**274,549**	316,040

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022 (unaudited)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022 (unaudited) (Continued)

	Note	**At 30 June 2022 (unaudited)** *RMB'000*	At 31 December 2021 (audited) *RMB'000*
Capital and reserves			
Share capital	13	**49,231**	49,399
Reserves		**6,655,670**	6,580,846
Total equity attributable to equity shareholders of the Company		**6,704,901**	6,630,245
Non-controlling interests		**268,409**	262,312
Total equity		**6,973,310**	6,892,557

1. REPORTING ENTITY

The Company was incorporated in the Cayman Islands on 14 August 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

The interim financial report of the Company as at and for the six months ended 30 June 2022 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

2. BASIS OF PREPARATION

The unaudited interim financial information set out in this announcement does not constitute the unaudited interim financial report of the Company and the Group but is extracted from that unaudited interim financial report.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

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

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3. CHANGES IN ACCOUNTING POLICIES

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

- Amendments to IFRS 16, *Property, plant and equipment: Proceeds before intended use*

- Amendment to IFRS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

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

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
DS	**1,384,435**	1,132,896
HSS	**532,480**	427,815
Cutting tools	**418,414**	459,219
Titanium alloy	**164,459**	105,022
Trading of goods	**–**	491,921
Others	**170,372**	–
	2,670,160	2,616,873

The Group's revenue from contracts with customers was recognised at a point in time. Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Note 4(b)(iii).

For the six months ended 30 June 2022, the Group's customer base is diversified and had no customer whose transactions exceeded 10% of the Group's revenue (six months ended 30 June 2021: one customer).

(b) Segment reporting

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

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

(i) Segment results, assets and liabilities

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

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

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

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

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

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

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

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

	Six months ended 30 June 2021					
	DS	HSS	Cutting tools	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,132,896	427,815	459,219	105,022	491,921	2,616,873
Inter-segment revenue	–	143,285	–	–	–	143,285
Reportable segment revenue	1,132,896	571,100	459,219	105,022	491,921	2,760,158
Reportable segment profit (adjusted EBIT)	189,714	134,044	93,819	12,235	254	430,066

	As at 31 December 2021					
	DS	HSS	Cutting tools	Titanium alloy	Trading of goods	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment assets	4,559,564	2,733,938	1,038,044	495,080	22,000	8,848,626
Reportable segment liabilities	688,833	438,775	206,843	46,361	22,000	1,402,812

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**2,831,562**	2,760,158
Elimination of inter-segment revenue	**(161,402)**	(143,285)
Consolidated revenue	**2,670,160**	2,616,873

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

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

	At 30 June 2022	At 31 December 2021
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,531,939**	1,402,812
Interest-bearing borrowings	**2,779,416**	2,638,786
Current taxation	**23,229**	40,955
Deferred tax liabilities	**94,898**	100,091
Other financial liability	**1,496,350**	1,468,050
Other unallocated head office and corporate liabilities	**214,065**	21,355
Consolidated total liabilities	**6,139,897**	5,672,029

(iii) ***Geographical information***

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Revenue		
The PRC	**1,006,048**	1,680,697
North America	**602,355**	367,417
Europe	**796,789**	387,223
Asia (other than the PRC)	**237,049**	166,720
Others	**27,919**	14,816
Total	**2,670,160**	2,616,873

5. OTHER INCOME

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

The subsidiaries of the Group, including Jiangsu Tiangong Tools New Materials Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe"), Jiangsu Tiangong Technology Company Limited ("TG Tech"), Jiangsu Weijian Tools Technology Company Limited ("Weijian Tools") and Jurong Tiangong New Materials Technology Company Limited ("TG New Materials") located in the PRC, collectively received unconditional grants amounting to RMB17,177,000 (six months ended 30 June 2021: RMB20,400,000) from the local government as a reward for their contribution to the local economy and to encourage technology innovation. TG Tools, TG Aihe and TG Tech also recognised amortisation of government grants related to assets of RMB3,888,000 (six months ended 30 June 2021: RMB3,888,000) during the six months ended 30 June 2022.

6. OTHER EXPENSES

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Provision for loss allowance on trade and other receivables	**19,170**	3,123
Charitable donations	**800**	700
Net realised and unrealised losses on trading securities	**655**	–
Net losses on disposal of property, plant and equipment	**–**	9,242
Net foreign exchange losses	**–**	16,245
Others	**8**	75
	20,633	29,475

7. PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2022	2021
	RMB'000	*RMB'000*
Interest income	**(22,960)**	(10,104)
Finance income	**(22,960)**	(10,104)
Interest on bank loans	**58,288**	61,689
Interest arising on other financial liability	**28,300**	24,750
Less: interest expenses capitalised into property, plant and equipment under construction	**–**	(8,300)
Finance expenses	**86,588**	78,139
Net finance costs	**63,628**	68,035

(b) Other items

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

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

8. INCOME TAX

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

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

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

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

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

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

(d) Thailand Profits Tax has been provided for Tiangong Special Steel Company Limited and Tiangong Precision Tools (Thailand) Company Limited at the rate of 20% (2021: 20%) on the estimated assessable profits arising in Thailand for the six months ended 30 June 2022.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB295,198,000 (six months ended 30 June 2021: RMB290,537,000) and the weighted average of 2,790,376,078 ordinary shares in issue during the interim period (six months ended 30 June 2021: 2,649,444,444).

(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2022 and 2021 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the periods.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2022 *RMB'000*	At 31 December 2021 *RMB'000*
Trade receivables	**1,687,117**	1,305,126
Bills receivable	**742,004**	663,156
Less: loss allowance	**(102,374)**	(84,938)
Net trade and bills receivable	**2,326,747**	1,883,334
Prepayments	**183,953**	132,280
Non-trade receivables	**185,713**	122,278
Less: loss allowance	**(10,511)**	(6,633)
Net prepayments and non-trade receivables	**359,155**	247,925
	2,685,902	2,131,259

As at 30 June 2022, certain intercompany trade receivables of RMB218,162,000 (2021: RMB175,195,000) have been pledged to a bank as security for the Group's bank loans.

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

	At 30 June 2022 *RMB'000*	At 31 December 2021 *RMB'000*
Within 3 months	**1,745,328**	1,498,858
4 to 6 months	**255,488**	108,920
7 to 12 months	**229,747**	116,536
1 to 2 years	**73,705**	150,321
Over 2 years	**22,479**	8,699
	2,326,747	1,883,344

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.

11. TRADE AND OTHER PAYABLES

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

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

12 OTHER FINANCIAL LIABILITY

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

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

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

At the date of issuance of the Investment in TG Tools, it is initially recognised at fair value and is carried at amortised cost for subsequent periods. Interest on the Investment in TG Tools is calculated using the effective interest method and recognised in the consolidated statement of profit or loss.

13. CAPITAL, RESERVES AND DIVIDENDS

Dividends

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

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

The directors did not recommend payment of an interim dividend for the interim period (no interim dividend for the six months period ended 30 June 2021).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trading of goods

This segment involved the trading of general carbon steel products outside of the Group's production scope. As the Group continued to focus on its principal and core businesses, the Group has ceased its operation in this segment since 1 January 2022.

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

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

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

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

FINANCIAL REVIEW

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

Revenue

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

Cost of sales

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

Gross margin

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

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

DS

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

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

HSS

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

Cutting Tools

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

Titanium alloy

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

Others

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

Other income

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

Distribution expenses

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

Administrative expenses

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

Research and development expenses

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

Net finance costs

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

Income tax expense

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

Profit for the period

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

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

Profit attributable to equity shareholders of the Company

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

Other financial assets

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

Financial assets at fair value through profit or loss

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

Trade and bills receivable

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

Trade and other payables

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

INDUSTRY REVIEW

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

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

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

MARKET REVIEW

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

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

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

ACCOMPLISHMENTS

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

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

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

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

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

FUTURE OUTLOOK

Operation Strategy

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

Domestic Industry Development

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

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

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

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

Export Operation

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

Overseas Expansion

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

Product Development Strategy

Powder Metallurgy Industry

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

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

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

Carbide Cutting Tools Industry

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

Titanium Alloy Industry

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

Marketing Strategy

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

Information Technology

In order to cope with the Group's expansion of production capacity, international development, expansion of product lines, more precise and professional production processes and more diversified sales channels, the Group has invested heavily and developed a digital information system, "Digital Tiangong", which covers all business areas of the Group. The system completes the digital development of five areas: from sales to payment collection, purchases to payment, planning to resources, manufacturing to costs, and order to delivery, which effectively improves the performance of network procurement, comprehensively enhances the synergy of the industrial supply chain, and makes the best preparation for transforming the Group to an amoeba management model. In the meantime, the second phase of the smart manufacturing project "Digital Tiangong" was officially launched in June 2021, which involved a wider range of departments and functions. The Group will accelerate its digitalization and smart development by gradually implementing informatization, in order to achieve comprehensive transformation and upgrade, and to lead the change and development of the industry.

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

OUR MISSION

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

We re-affirm our mission to maximise shareholder value, uphold corporate governance standards that create maximum value for shareholders and maintain the highest standards of corporate governance.

FORWARD LOOKING STATEMENTS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group's current assets mainly included cash and cash equivalents of RMB1,098,434,000, inventories of RMB2,532,132,000, trade and other receivables of RMB2,685,902,000, time deposits of RMB1,602,165,000 and pledged deposits of RMB176,416,000. The Group's current assets were RMB8,198,045,000 compared to RMB7,761,073,000 as at 31 December 2021, an increase of 5.6%.

As at 30 June 2022, interest-bearing borrowings of the Group were RMB2,779,416,000 (31 December 2021: RMB2,638,786,000), RMB1,608,416,000 (31 December 2021: RMB1,600,786,000) of which were repayable within one year and RMB1,171,000,000 (31 December 2021: RMB1,038,000,000) of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was nil (31 December 2021: nil).

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

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

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

USE OF PLACING PROCEEDS

The Group placed an aggregate of 200,000,000 shares (representing 7.16% of the enlarged issued share capital of the Company) at the placing price of HK$4.22 per share to not less than six placees in 2021. The placing of the 200,000,000 shares was completed on 7 May 2021 with the net proceeds of approximately HK$834 million representing a net issue price of approximately HK$4.17 per share. The market price of the placing share was HK$4.88 per share as quoted on the Stock Exchange of Hong Kong on 4 May 2021, the last full trading day immediately before the time at which the Placing and Subscription Agreement was signed. The proceeds from the placing have been used as follows:

Intended use of proceeds from the placing		**Actual use of proceeds (as at 30 June 2022)**	**Proposed use of the remaining unutilised proceeds (as at 30 June 2022)**
(i)	Expansion of the industrial park of the Group in Thailand	HK$30.5 million was used in the expansion of the industrial park of the Group in Thailand	The remaining unutilised proceeds was HK$29.4 million
(ii)	Development of the new precision tools products of the Group	HK$130.3 million was used in development of the new precision tools products of the Group	The remaining unutilised proceeds was HK$228.9 million
(iii)	Replenishment of Group's working capital to procure raw materials and meet any cashflow requirements that may arise from daily operations	HK$415.3 million was used as working capital and for daily operation, including payment of electricity, staff salaries and procurement of raw materials	The remaining unutilised proceeds was nil

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

RISK AND PREVENTION

Operating Exposure

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

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

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

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

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

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for 37.7% (1H2021: 64.2%). 62.3% (1H2021: 35.8%) of the total sales and operating profit was subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a timely basis to minimise any significant financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 30 June 2022, the Group pledged certain bank deposits amounting to approximately RMB176,416,000 (31 December 2021: RMB244,191,000) and certain intercompany trade receivables amounting to RMB218,162,000 (31 December 2021: RMB175,195,000). Details are set out in the notes to the interim financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2022, the Group employed 3,106 employees (31 December 2021: 3,108). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

CONTINGENT LIABILITIES

Both the Group and the Company had no material contingent liabilities as at 30 June 2022 (31 December 2021: No material contingent liabilities).

INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2021).

SHARE OPTIONS SCHEME

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

No share options were granted under the current share option scheme in the six months ended 30 June 2022 and there were no outstanding share options as at 30 June 2022.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

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

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

Save as disclosed, during the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2022, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for the following deviation:

Code Provision C.1.6

Code provision C.1.6 of the CG Code stipulates that independent non-executive directors ("INEDs") and other non-executive directors should also attend general meetings. Mr. Gao Xiang was unable to attend the annual general meeting of the Company held on 2 June 2022 due to the COVID-19 pandemic.

EVENTS AFTER REPORTING PERIOD

On 19 August 2022, 江蘇天工精密工具有限公司 (Jiangsu Tiangong Precision Tools Co. Ltd*)(a wholly-owned subsidiary of the Company, as purchaser) ("TG Precision") entered in an equity interest transfer agreement, pursuant to which TG Precision would acquire the entire equity interest of 江蘇天冠精密機械發展有限公司(Jiangsu Tianguan Precision Machinery Development Co., Ltd.*) from Smart Rich Industrial Limited (a company wholly-owned by Mr. Zhu Zefeng) at a total consideration of RMB276,000,000 (equivalent to approximately HK$318.1 million). For further information, please refer to the Company's announcement dated 19 August 2022.

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

AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 26 August 2022 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2022 interim report and interim financial statements of the Group have complied with the applicable accounting standards and the Group has made appropriate disclosure thereof.

APPRECIATION

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

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

Hong Kong, 29 August 2022

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

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

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

* *For identification purposes only*