Tiangong International Company Limited

天工國際有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 826)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

RMB' million (unless otherwise specified)

	Year ended 31 December 2023	Year ended 31 December 2022	Change
Revenue	**5,163.3**	5,066.8	1.9%
Gross profit	**1,143.4**	1,148.5	(0.4%)
Net profit attributable to equity shareholders of the Company	**370.2**	503.5	(26.5%)
Basic earnings per share *(RMB)*	**0.133**	0.181	(26.5%)
Gross profit margin	**22.1%**	22.7%	(0.6 ppt)
Margin of profit attributable to equity shareholders of the Company	**7.2%**	9.9%	(2.7 ppt)
Net Assets	**7,384.6**	7,141.3	3.4%
Net Debt[1]	**708.7**	193.6	266.1%
Net Gearing[2]	**9.6%**	2.7%	6.9 ppt

Notes:

(1) Net debt equal to total bank borrowings less pledged deposits, time deposits and cash and cash equivalents.

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

The board of directors (the "**Board**") of Tiangong International Company Limited (the "**Company**") is pleased to announce the audited consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2023 and the consolidated statement of financial position of the Group as at 31 December 2023, together with the comparative figures for the same period of 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	2022
	RMB'000	*RMB'000*
Profit for the year	**419,928**	524,110
Other comprehensive income for the year (after tax adjustment)		
Items that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income (FVOCI)		
— net movement in fair value reserve (non-recycling) (inclusive of tax effect of RMB1,600,000 (2022: RMB2,720,000))	**(7,328)**	(22,806)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of entities with functional currencies other than RMB (inclusive of nil tax (2022: nil))	**(12,962)**	(57,915)
Other comprehensive income for the year	**(20,290)**	(80,721)
Total comprehensive income for the year	**399,638**	443,389
Attributable to:		
Equity shareholders of the Company	**349,996**	422,697
Non-controlling interests	**49,642**	20,692
Total comprehensive income for the year	**399,638**	443,389

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		**4,506,918**	4,607,596
Lease prepayments		**248,869**	233,842
Intangible assets		**57,721**	65,333
Goodwill		**144,600**	144,600
Interest in associates		**99,181**	95,473
Interest in joint ventures		**29,823**	47,669
Other financial assets		**192,840**	189,694
Deferred tax assets		**63,372**	60,007
		5,343,324	5,444,214
Current assets			
Financial assets measured at fair value through profit or loss (FVPL)		**1,111**	1,041
Inventories		**2,477,492**	2,583,470
Trade and other receivables	*10*	**3,552,788**	2,632,708
Pledged deposits		**129,288**	140,041
Time deposits		**1,307,985**	1,341,834
Cash and cash equivalents		**749,087**	1,219,843
		8,217,751	7,918,937
Current liabilities			
Trade and other payables	*11*	**1,583,176**	1,659,779
Interest-bearing borrowings		**2,209,423**	1,866,813
Other financial liability	*12*	**1,581,250**	1,524,650
Current taxation		**26,729**	28,240
		5,400,578	5,079,482
Net current assets		**2,817,173**	2,839,455
Total assets less current liabilities		**8,160,497**	8,283,669

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at 31 December 2023

	2023 *RMB'000*	2022 *RMB'000*
Non-current liabilities		
Interest-bearing borrowings	**685,598**	1,028,500
Deferred income	**37,788**	42,530
Deferred tax liabilities	**52,523**	71,306
	775,909	1,142,336
Net assets	**7,384,588**	7,141,333
Capital and reserves		
Share capital	**49,055**	49,231
Reserves	**7,015,500**	6,811,053
Total equity attributable to equity shareholders of the Company	**7,064,555**	6,860,284
Non-controlling interests	**320,033**	281,049
Total equity	**7,384,588**	7,141,333

NOTES

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

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

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in the financial statements.

The financial information relating to the year ended 31 December 2023 that is included in this preliminary annual results announcement does not constitute the Group's consolidated financial statements for the year ended 31 December 2023 but is derived from those financial statements.

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:

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

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

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

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sales of high alloy steel, (including die steel ("**DS**") and high speed steel ("**HSS**")), cutting tools, titanium alloy and others after eliminating intercompany transactions. Further details regarding the Group's principal activities are disclosed in Note 4(b).

(i) Disaggregation of revenue

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

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

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

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

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

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

(b) Segment reporting

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

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

(i) Segment results, assets and liabilities

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

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

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

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

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

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

	2023					
	DS	**HSS**	**Cutting tools**	**Titanium alloy**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**2,345,986**	**815,904**	**905,754**	**963,836**	**131,826**	**5,163,306**
Inter-segment revenue	**95**	**271,527**	**5,319**	**–**	**–**	**276,941**
Reportable segment revenue	**2,346,081**	**1,087,431**	**911,073**	**963,836**	**131,826**	**5,440,247**
Reportable segment profit (adjusted EBIT)	**108,679**	**97,624**	**195,368**	**208,914**	**20,233**	**630,818**
Reportable segment assets	**5,285,497**	**2,683,495**	**1,807,993**	**962,227**	**216,757**	**10,955,969**
Reportable segment liabilities	**790,334**	**303,962**	**287,618**	**198,385**	**18,715**	**1,599,014**

	Year ended and as at 31 December 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	2,703,341	964,780	756,726	362,420	279,540	5,066,807
Inter-segment revenue	–	271,369	–	107	–	271,476
Reportable segment revenue	2,703,341	1,236,149	756,726	362,527	279,540	5,338,283
Reportable segment profit (adjusted EBIT)	207,723	145,163	140,801	72,435	63,368	629,490
Reportable segment assets	5,189,444	2,668,476	1,696,313	596,843	82,780	10,233,856
Reportable segment liabilities	1,008,396	338,051	170,535	137,066	16,353	1,670,401

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

	2023	2022
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**5,440,247**	5,338,283
Elimination of inter-segment revenue	**(276,941)**	(271,476)
Consolidated revenue *(Note 4(a))*	**5,163,306**	5,066,807

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

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

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

(iii) Geographical information

The Group's business is managed on a worldwide basis, but participates in four principal economic geographies, the People's Republic of China, and for the purpose 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).

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

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

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

5 OTHER INCOME

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

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

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

6 OTHER OPERATING EXPENSES

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

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

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

(b) Staff costs

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

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

(c) Other items

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

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

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

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

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

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

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

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

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

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

Pursuant to the income tax rules and regulations of Thailand, Tiangong Special Steel Company Limited ("**TGSS**"), a subsidiary of the Group in Thailand are liable to Thailand Corporate Income Tax at a rate of 20% (2022: 20%) for the year ended 31 December 2023.

(v) Pursuant to the income tax rules and regulations of USA, the Group's subsidiary incorporated in the USA is subject to Federal Tax at a rate of 21% and State Profits Tax at a rate of 7%. On 26 December 2023, the Group deregistered the subsidiary in USA, TG Special Steel (USA) Ltd ("**TG USA**").

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

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

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

Weighted average number of ordinary shares

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

(b) Diluted earnings per share

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

10 TRADE AND OTHER RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**2,246,281**	1,697,853
Bills receivable	**818,760**	699,453
Less: loss allowance	**(149,555)**	(111,645)
Net trade and bills receivable	**2,915,486**	2,285,661
Prepayments	**224,199**	223,327
Non-trade receivables	**311,133**	132,243
Less: loss allowance	**(7,907)**	(8,523)
Current taxation	**109,877**	–
Net prepayments and non-trade receivables	**637,302**	347,047
	3,552,788	2,632,708

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

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

Trade receivables of RMB161,843,000 (2022: RMB145,131,000) have been pledged to a bank as security for the Group's bank loans.

(a) Ageing analysis

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

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**1,925,195**	1,523,341
4 to 6 months	**411,251**	292,466
7 to 12 months	**387,440**	325,498
1 to 2 years	**172,756**	113,999
Over 2 years	**18,844**	30,357
	2,915,486	2,285,661

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

(b) Loss allowance of trade receivables

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

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

	2023		
	Expected loss rate *%*	**Gross carrying amount** ***RMB'000***	**Loss allowance** ***RMB'000***
Current (not past due)	**5.0%**	**1,164,532**	**58,097**
1–9 months past due	**5.0%**	**840,878**	**42,187**
9–21 months past due	**10.3%**	**192,544**	**19,788**
More than 21 months past due	**61.0%**	**48,327**	**29,483**
		2,246,281	**149,555**

	2022		
	Expected loss rate *%*	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
Current (not past due)	5.0%	867,214	43,326
1–9 months past due	5.0%	650,401	32,437
9–21 months past due	10.9%	127,932	13,933
More than 21 months past due	42.0%	52,306	21,949
		1,697,853	111,645

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2023 ***RMB'000***	2022 *RMB'000*
Balance at 1 January	**111,645**	84,948
Amounts written-off during the year	**(93)**	(233)
Loss allowance recognised during the year	**36,464**	23,505
Exchange gain and loss adjustment	**1,539**	3,425
Balance at 31 December	**149,555**	111,645

11 TRADE AND OTHER PAYABLES

	2023	2022
	RMB'000	*RMB'000*
Trade and bills payable	**1,246,803**	1,272,129
Contract liabilities	**13,394**	23,476
Non-trade payables and accrued expenses	**322,979**	364,174
	1,583,176	1,659,779

All trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**762,016**	711,968
4 to 6 months	**410,250**	402,223
7 to 12 months	**44,873**	118,981
1 to 2 years	**17,056**	28,428
Over 2 years	**12,608**	10,529
	1,246,803	1,272,129

12 OTHER FINANCIAL LIABILITY

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

	2023	2022
	RMB'000	*RMB'000*
Contingent redeemable capital contributions in a subsidiary	**1,581,250**	1,524,650

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

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

13 DIVIDENDS

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

	2023	2022
	RMB'000	*RMB'000*
Dividend proposed after the end of the reporting period of RMB0.0400 per ordinary share (2022: RMB0.0362 per ordinary share)	**111,063**	100,707

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

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

	2023	2022
	RMB'000	*RMB'000*
Dividend in respect of the previous financial year, approved and paid during the year of RMB0.0362 per ordinary share (2022: RMB0.0594 per ordinary share)	**100,459**	165,429

In respect of the final dividend for the year ended 31 December 2022, there is a difference of RMB248,000 between the final dividend disclosed in the 2022 annual financial statements and amounts approved and paid during the year, which is mainly due to the change in number of ordinary shares arising from repurchase and cancellation of shares from March to May 2023 and the RMB/HKD exchange rate difference between the fixed middle average exchange rate on the date of the 2022 annual result announcement and the actual exchange rate applied on the date of payment.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The revenue generated by the titanium alloy segment in 2023 primarily derived from domestics sales. A substantial increase of 165.9% on total revenue to RMB963,836,000 (2022: RMB362,420,000) was noted. It was mainly due to the Group's cooperation with a domestic consumer electronics processor, allowing the Group to officially enter the 3C (computer, communication and consumer electronics) supply chain. The Group supplied frame materials for internationally renowned consumer electronics manufacturers. Both the sales volume and the average selling price of 2023 increased significantly after the transformation of product runway.

At present, the Group's titanium alloy segment is predominantly focused on the domestic market. However, the processed end products manufactured using the Group's products are expected to make significant impact in the international consumer electronics market, thereby enhancing the international recognition of the Group's products and provide an excellent platform for exploring the international market. The Group is actively exploring the international market, including titanium alloy materials for 3D printing and medical industry, so as to increase its international market share.

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

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

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

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

FINANCIAL REVIEW

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

Revenue

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

Cost of sales

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

Gross margin

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

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

DS

Weak demand resulted in an inefficient transmission of increasing costs caused by the price increase of raw materials (i.e. rare metals). In addition, production volume decreased causing the average unit cost to increase. As a result, the gross margin of DS decreased from 19.1% in 2022 to 15.5% in 2023.

HSS

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

Cutting tools

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

Titanium alloy

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

Others

Others segment concerns with the assembly and sales of power tool kits to an existing customer. The Group aimed to expand downstream and provide more diversified products and services. The gross margin of this segment was depending on the demand from overseas market. As a result of various trade practices and elevated inflation rates in foreign countries, orders for power tool kits decreased. Consequently, the gross margin of the segment decreased from 22.7% in 2022 to 17.1% in 2023.

Other income

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

Distribution costs

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

Administrative expenses

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

Research and development expenses

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

Other operating expenses

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

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

Net finance costs

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

Income tax

As set out in Note 8 to the consolidated statement of profit or loss, the Group's income tax expense increased from credited RMB4,750,000 in 2022 to RMB45,542,000 in 2023. It was because there were non-recurring events occurred exclusively in 2022, like tax reductions for fixed assets purchase by high-tech enterprises and reversal of excessive withholding tax on dividend, etc.. As a result, a tax credit incurred in 2022 while effective tax rate returned to a normal range in 2023.

Profit for the year attributable to equity shareholders of the Company

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

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

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

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

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

Other financial assets

Other financial assets held by the Group included equity interests in Bank of Jiangsu Co., Ltd., 廈門創豐翌致投資管理合夥企業(有限合夥) (Xiamen Chuangfeng Yizhi Investment Management Partnership (Limited Partnership)*), Nanjing Xiaomuma Technology Co., Ltd., JM Digital Steel Inc., 寧波梅山保稅港區啟安股權投資合夥企業(有限合夥) (Ningbo Meishan Free Trade Port Qian Equity Investment Partnership (Limited Partnership)*), 中金佳泰叁期(深圳)私募股權投資基金合夥企業(有限合夥) (CICC Jiatai Private Equity Fund III (Shenzhen) Partnership (Limited Partnership)*), Ji'nan Financial Fosun Weishi Equity Investment Fund Partnership (Limited Partnership), 丹陽博雲恒大天工產業投資中心(有限合夥)(Danyang Boyun Hengda Tiangong Industrial Investment Center (Limited Partnership)*) and 蘇州毅鳴新材料創業投資合夥企業 (有限合夥) (Suzhou Yiming New Materials Venture Capital Partnership Enterprise (Limited Partnership)*). All of these investments were stated at their fair value as at 31 December 2023. Other than the fair value loss, net of tax, of RMB7,328,000 (2022: loss of RMB22,806,000) recorded in the other comprehensive income in 2023, the fair value loss of RMB4,420,000 was recorded in other operating expenses (2022: gain of RMB4,910,000 in other income) for financial assets measured at fair value through profit or loss during the year.

Trade and bills receivable

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

Loss allowance of RMB149,555,000 (2022: RMB111,645,000) accounted for 4.9% (2022: 4.7%) of the trade and bills receivable. The increase in loss allowance was mainly due to the general provision on higher trade receivable balance.

INDUSTRY REVIEW

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

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

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

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

MARKET REVIEW

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

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

In addition, given a significant gap between the utilization rate of computer numerical control (CNC) in China's metal processing machine tool and that of advanced countries, the high-speed development of CNC machine tool is an inevitable trend. As China's manufacturing industry continues with its high-end transformation, the development of smart CNC metal processing machine tool has become an essential approach to meet the requirements of high-complexity and high-precision metal processing. Currently, the CNC rate of machine tools in China is approximately 44.9%, which is notably lower than the average CNC rate of over 70.0% in developed countries, indicating that there is still significant potential for the development of CNC machine tool market.

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

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

ACCOMPLISHMENTS

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

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

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

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

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

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

FUTURE OUTLOOK

Operation Strategy

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

Domestic industry development

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

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

The automotive industry continues to inject growth momentum into the advanced materials industry, with new energy vehicles focusing on lightweight development. According to the China Association of Automobile Manufacturers, in 2023, China's production and sales of new energy vehicles reached approximately 9.59 million and 9.50 million vehicles, representing a year-on-year increase of 35.8% and 37.9%, respectively, with a market share of 31.6%. In accordance with the implementation of the "Development Plan for the New Energy Vehicle Industry (2021–2035)" announced by the PRC State Council, the new energy vehicle industry will drive an increase in demand for upstream industries.

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

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

Export operation

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

Overseas expansion

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

Product Development Strategy

Powder Metallurgy Industry

With the official completion and launch of its first large-scale tool steel powder metallurgy production line in the PRC in December 2019, the Group successfully entered the powder metallurgy industry. As the only enterprise in the domestic cutting tool sector with a complete industry chain from producing high-end powder materials to powder tools, the Group has made significant breakthroughs in overcoming foreign technical monopoly and expending into the high-end market.

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

Integrated die casting mold steel industry

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

Diversified Cutting Tools Industry

As the only domestic enterprise with a full industrial chain from the production of high-end materials to cutting tools, in recent years, the Group has continuously improved material performance and led the upgrading of cutting tools. During the year under review, the Group's cutting tools products covered traditional HSS cutting tools, powder metallurgy HSS cutting tools and carbide cutting tools. In particular, carbide products included three major products, namely blades, cutting tools and rods. These products collectively form a complete and specialized cutting tools product system capable of meeting cutting needs in different fields and levels. The Group intends to actively develop into a one-stop solution provider for cutting tools, which could seize the opportunities brought by the continuous growth in demand for different cutting tools products and further consolidate the Group's leading position in the global cutting tools market.

Titanium Alloy Industry

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

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

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

TG Tech, a subsidiary of the Company, has entered into an important cooperation with a domestic consumer electronics supply chain processor, involving the use of titanium and titanium alloy wire produced by TG Tech to manufacture frames which are then used by renowned consumer-electronics manufacturers as a key component of their end products. Since the formation of this cooperation alliance with the domestic processor, the average selling price, revenue, and business contribution of the Group's titanium alloy products have significantly increased, becoming a major driving force behind the overall revenue growth of the Group.

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

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

3D Metal Printing Industry

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

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

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

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

Marketing Strategy

The Group has been operating in collaboration with downstream mid-to-high end heat treatment technology and piece cutting service providers by establishing cooperation companies in eastern, southern and western China, and other regions to provide technical support to downstream customers. This achieved agile closed-loop management of after-sales services and enhance the customer service system in order to improve after-sales service capability and strengthen the understanding of customer needs.

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

Green Development

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

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

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

The Group has always been adhering to the core concept of "Green Development" and would never sacrifice the environment in exchange for corporate development. Over the years, the Group has invested heavily in environmental protection equipment, such as a large-scale wastewater treatment centre with a total investment of over RMB20 million and rooftop photovoltaic project that provides green energy. TG Tools and TG Tech, subsidiaries of the Group, were included in the list of "'City-level Green Factory' in 2022" and "'City-level Green Factory' in 2023" released by the Industry and Information Technology Bureau of Zhenjiang City, respectively.

During 2023, the Group made active efforts to enhance the disclosure of its environmental, social, and governance performance. According to public information from the S&P Global Corporate Sustainability Assessment, the Group's sustainable development performance in both 2021 and 2022 was above the industry average. In 2023, there was marked improvement in scores related to corporate governance and social aspects, demonstrating the Group's commitment to sustainable development. Moving forward, while vigorously developing its business, the Group will continue to devote itself to the cause of environmental protection and play a leading role in the "green manufacturing" system.

Information Technology

To cope with the Group's expansion of production capacity, international development, expansion of product lines, more precise and professional production processes and more diversified sales channels, the Group has invested heavily to develop an integrated digital information system, "Digital Tiangong", which covers all business areas of the Group. The system completes the digital development of five areas: from sales to payment collection, purchases to payment, planning to resources, manufacturing to costs, and order to delivery, which will effectively improve the performance of network procurement, comprehensively enhance the synergy of the industrial supply chain, greatly enhance the competitiveness of the Group. The second phase of the smart manufacturing project "Digital Tiangong" was officially launched in June 2021, enabling the Group to transform from traditional manufacturing to advanced manufacturing. "Digital Tiangong" is a project involving reform of management technology and methods. After two years of efforts, the Group has built a unified digital platform, which enables efficient operation of various business units of the Group, thus laying the foundation for further scalable development.

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

OUR MISSION

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

FORWARD LOOKING STATEMENTS

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

CASH CONVERSION CYCLE

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

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

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

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

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

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

For 2023, the Group's net decrease in property, plant and equipment amounted to RMB100,678,000. Major capital expenditures were completed in previous years. Capital expenditures in 2023 were relatively moderate and net depreciation began to reflect. As at 31 December 2023, capital commitments were RMB591,863,000 (2022: RMB268,986,000), of which RMB46,122,000 (2022: RMB58,268,000) were contracted for and RMB545,741,000 (2022: RMB210,718,000) were authorised but not contracted for. The majority of capital commitments related to expansion of capacity for titanium alloy segment and upgrade of other production lines.

FOREIGN EXCHANGE EXPOSURE

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

PLEDGE OF ASSETS

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

EMPLOYEES' REMUNERATION AND TRAINING

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

CONTINGENT LIABILITIES

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

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

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

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

SHARE SCHEME

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

No share options were granted under the current share option scheme in the financial year ended 31 December 2023 and there were no outstanding share options as at 31 December 2023.

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

PURCHASE, SALES OR REDEMPTION OF SHARES

During the year ended 31 December 2023, the Company repurchased 10,000,000 shares in total, at an aggregate consideration of HKD22,728,772 (equivalent to approximately RMB20,208,000) on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The shares repurchased were cancelled on 24 May 2023. Details of the repurchases of such ordinary shares were as follows:

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

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

CORPORATE GOVERNANCE

The Company has, so far where applicable, adopted and complied with the principles and code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 (Note 1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the year ended 31 December 2023.

AUDIT COMMITTEE

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

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Group has adopted a code of conduct governing securities transactions by Directors in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix10 (Note 2) of the Listing Rules (the "**Model Code**"). All of the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Group's code of conduct governing securities transactions by Directors and employees who may possess or have access to price sensitive information or inside information during the year ended 31 December 2023.

Note 1: The appendix number of the CG Code was revised as Appendix C1 which became effective on 31 December 2023.

Note 2: The appendix number of the Model Code was revised as Appendix C3 which became effective on 31 December 2023.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE WEBSITE

The Company's 2023 annual report will be submitted to the Stock Exchange for uploading onto the Stock Exchange's website (www.hkexnews.hk) as well as the Company's website (www.tggj.cn) in due course.

APPRECIATION

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

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

Hong Kong, 25 March 2024

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

Executive Directors: ZHU Xiaokun, ZHU Zefeng, WU Suojun and JIANG Guangqing

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

* *For identification purpose*