# Tiangong International Company Limited

**天工國際有限公司***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 826)**

# ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

## FINANCIAL HIGHLIGHTS

*RMB'million (unless otherwise specified)*

| | **Six months ended 30 June 2023 (unaudited)** | Six months ended 30 June 2022 (unaudited) | **Change** |
|---|---|---|---|
| Revenue | **2,496.4** | 2,670.2 | (6.5%) |
| Gross profit | **569.6** | 655.2 | (13.1%) |
| Profit attributable to equity shareholders of the Company | **218.7** | 295.2 | (25.9%) |
| Basic earnings per share *(RMB)* | **0.079** | 0.106 | (25.5%) |
| Diluted earnings per share *(RMB)* | **0.079** | 0.106 | (25.5%) |
| Gross profit margin | **22.8%** | 24.5% | (1.7ppt) |
| Net profit margin | **9.7%** | 11.3% | (1.6ppt) |

| | **At 30 June 2023 (unaudited)** | At 31 December 2022 (audited) | **Change** |
|---|---|---|---|
| Net Assets | **7,205.2** | 7,141.3 | 0.9% |
| Net Debt(1) | **355.1** | 193.6 | 83.4% |
| Net Gearing(2) | **4.9%** | 2.7% | 2.2 ppt |

*Notes:*

(1) Net debt equals to total interest-bearing borrowings less pledged deposits, time deposits and cash and cash equivalents.

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

The board (the "Board") of directors (the "Directors") of Tiangong International Company Limited (the "Company") is pleased to announce the unaudited consolidated statement of profit or loss and other comprehensive income of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2023, together with the comparative figures for the same period of 2022, and the consolidated statement of financial position of the Group as at 30 June 2023, together with the comparative figures as at 31 December 2022, which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee") as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*For the six months ended 30 June 2023 (unaudited)*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2023** | 2022 |
| | | **(unaudited)** | (unaudited) |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | *4* | **2,496,411** | 2,670,160 |
| Cost of sales | | **(1,926,849)** | (2,014,959) |
| **Gross profit** | | **569,562** | 655,201 |
| Other income | *5* | **101,969** | 73,168 |
| Distribution expenses | | **(57,238)** | (123,095) |
| Administrative expenses | | **(73,409)** | (64,922) |
| Research and development expenses | | **(164,091)** | (138,217) |
| Other expenses | *6* | **(32,959)** | (20,633) |
| **Profit from operations** | | **343,834** | 381,502 |
| Finance income | | **23,460** | 22,960 |
| Finance expenses | | **(105,241)** | (86,588) |
| **Net finance costs** | *7(a)* | **(81,781)** | (63,628) |
| Share of profits less losses of associates | | **8,048** | 11,506 |
| Share of profits less losses of joint ventures | | **(3,314)** | (90) |
| **Profit before income tax** | *7* | **266,787** | 329,290 |
| Income tax | *8* | **(24,449)** | (26,965) |
| **Profit for the period** | | **242,338** | 302,325 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **218,700** | 295,198 |
| Non-controlling interests | | **23,638** | 7,127 |
| **Profit for the period** | | **242,338** | 302,325 |
| **Earnings per share** *(RMB)* | | | |
| Basic and diluted | *9* | **0.079** | 0.106 |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the six months ended 30 June 2023 (unaudited)*

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **242,338** | 302,325 |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | |
| Items that will not be reclassified to profit or loss: | | |
| Equity investments at fair value through other comprehensive income — net movement in fair value reserve (non-recycling) | **1,457** | 13,584 |
| 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)) | **(23,583)** | (41,360) |
| **Other comprehensive income for the period** | **(22,126)** | (27,776) |
| **Total comprehensive income for the period** | **220,212** | 274,549 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **196,552** | 267,314 |
| Non-controlling interests | **23,660** | 7,235 |
| **Total comprehensive income for the period** | **220,212** | 274,549 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2023 (unaudited)*

| | Note | At 30 June 2023 (unaudited) RMB'000 | At 31 December 2022 (audited) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **4,576,235** | 4,607,596 |
| Lease prepayments | | **251,912** | 233,842 |
| Intangible assets | | **62,160** | 65,333 |
| Goodwill | | **144,600** | 144,600 |
| Interest in associates | | **103,115** | 95,473 |
| Interest in joint ventures | | **40,928** | 47,669 |
| Other financial assets | | **196,918** | 189,694 |
| Deferred tax assets | | **51,586** | 60,007 |
| | | **5,427,454** | 5,444,214 |
| **Current assets** | | | |
| Financial assets measured at fair value through profit or loss (FVPL) | | **1,024** | 1,041 |
| Inventories | | **2,725,573** | 2,583,470 |
| Trade and other receivables | *10* | **3,098,060** | 2,632,708 |
| Pledged deposits | | **281,541** | 140,041 |
| Time deposits | | **1,570,275** | 1,341,834 |
| Cash and cash equivalents | | **1,245,984** | 1,219,843 |
| | | **8,922,457** | 7,918,937 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | | **2,704,018** | 1,866,813 |
| Trade and other payables | *11* | **2,001,684** | 1,659,779 |
| Other financial liability | *12* | **1,552,950** | 1,524,650 |
| Current taxation | | **40,358** | 28,240 |
| | | **6,299,010** | 5,079,482 |
| **Net current assets** | | **2,623,447** | 2,839,455 |
| **Total assets less current liabilities** | | **8,050,901** | 8,283,669 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 June 2023 (unaudited) (Continued)*

| | Note | **At 30 June 2023 (unaudited)** *RMB'000* | At 31 December 2022 (audited) *RMB'000* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | | **748,900** | 1,028,500 |
| Deferred income | | **38,642** | 42,530 |
| Deferred tax liabilities | | **58,194** | 71,306 |
| | | **845,736** | 1,142,336 |
| **Net assets** | | **7,205,165** | 7,141,333 |
| **Capital and reserves** | | | |
| Share capital | *13* | **49,055** | 49,231 |
| Reserves | | **6,862,060** | 6,811,053 |
| **Total equity attributable to equity shareholders of the Company** | | **6,911,115** | 6,860,284 |
| **Non-controlling interests** | | **294,050** | 281,049 |
| **Total equity** | | **7,205,165** | 7,141,333 |

## 1. REPORTING ENTITY

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

The interim financial report of the Company as at and for the six months ended 30 June 2023 comprises the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

## 2. BASIS OF PREPARATION

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

The interim financial report of the Company and the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 25 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

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

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

## 3. CHANGES IN ACCOUNTING POLICIES

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

- IFRS 17, *Insurance contracts*
- Amendments to IFRS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IFRS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IFRS 12, *Income taxes: International tax reform — Pillar Two model rules*

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism.

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

## 4. REVENUE AND SEGMENT REPORTING

### (a) Revenue

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

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| DS | **1,145,497** | 1,384,435 |
| HSS | **381,901** | 532,480 |
| Cutting tools | **447,497** | 418,414 |
| Titanium alloy | **461,239** | 164,459 |
| Others | **60,277** | 170,372 |
| | **2,496,411** | 2,670,160 |

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

For the six months ended 30 June 2023, the Group's customer base is diversified and had one customer whose transactions exceeded 10% of the Group's revenue (six months ended 30 June 2022: nil customer).

**(b) Segment reporting**

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

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

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

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

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

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

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

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

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

| | **Six months ended 30 June 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** | **1,145,497** | **381,901** | **447,497** | **461,239** | **60,277** | **2,496,411** |
| **Inter-segment revenue** | **–** | **130,150** | **–** | **–** | **–** | **130,150** |
| **Reportable segment revenue** | **1,145,497** | **512,051** | **447,497** | **461,239** | **60,277** | **2,626,561** |
| **Reportable segment profit (adjusted EBIT)** | **61,971** | **44,472** | **81,461** | **100,356** | **13,973** | **302,233** |

| | **As at 30 June 2023** | | | | | |
|---|---|---|---|---|---|---|
| | **DS** | **HSS** | **Cutting tools** | **Titanium alloy** | **Others** | **Total** |
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **Reportable segment assets** | **5,306,137** | **2,669,203** | **1,693,112** | **953,742** | **198,679** | **10,820,873** |
| **Reportable segment liabilities** | **928,632** | **368,487** | **173,720** | **404,699** | **48,305** | **1,923,843** |

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

| | As at 31 December 2022 | | | | | |
|---|---|---|---|---|---|---|
| | DS | HSS | Cutting tools | Titanium alloy | Others | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Reportable segment assets | 5,189,444 | 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*

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Reportable segment revenue | **2,626,561** | 2,831,562 |
| Elimination of inter-segment revenue | **(130,150)** | (161,402) |
| Consolidated revenue | **2,496,411** | 2,670,160 |

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Profit** | | |
| Reportable segment profit | **302,233** | 395,974 |
| Net finance costs | **(81,781)** | (63,628) |
| Share of profits less losses of associates | **8,048** | 11,506 |
| Share of profits less losses of joint ventures | **(3,314)** | (90) |
| Other unallocated head office and corporate profit/(expenses) | **41,601** | (14,472) |
| Consolidated profit before income tax | **266,787** | 329,290 |

| | At 30 June | At 31 December |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Reportable segment assets | **10,820,873** | 10,233,856 |
| Interest in associates | **103,115** | 95,473 |
| Interest in joint ventures | **40,928** | 47,669 |
| Other financial assets | **196,918** | 189,694 |
| Deferred tax assets | **51,586** | 60,007 |
| Financial assets measured at fair value through profit or loss (FVPL) | **1,024** | 1,041 |
| Pledged deposits | **281,541** | 140,041 |
| Time deposits | **1,570,275** | 1,341,834 |
| Cash and cash equivalents | **1,245,984** | 1,291,843 |
| Other unallocated head office and corporate assets | **37,667** | 33,693 |
| Consolidated total assets | **14,349,911** | 13,363,151 |

| | **At 30 June 2023** *RMB'000* | At 31 December 2022 *RMB'000* |
|---|---|---|
| **Liabilities** | | |
| Reportable segment liabilities | **1,923,843** | 1,670,401 |
| Interest-bearing borrowings | **3,452,918** | 2,895,313 |
| Current taxation | **40,358** | 28,240 |
| Deferred tax liabilities | **58,194** | 71,306 |
| Other financial liability | **1,552,950** | 1,524,650 |
| Other unallocated head office and corporate liabilities | **116,483** | 31,908 |
| Consolidated total liabilities | **7,144,746** | 6,221,818 |

*(iii)* ***Geographical information***

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

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2023** *RMB'000* | 2022 *RMB'000* |
| **Revenue** | | |
| The PRC | **1,191,457** | 1,006,048 |
| North America | **482,558** | 602,355 |
| Europe | **553,511** | 796,789 |
| Asia (other than the PRC) | **255,878** | 237,049 |
| Others | **13,007** | 27,919 |
| Total | **2,496,411** | 2,670,160 |

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Government grants | **18,728** | 21,065 |
| Net foreign exchange gains | **66,631** | 39,457 |
| Dividends income | **5,149** | 7,097 |
| Unrealised fair value changes of other financial assets | **5,435** | – |
| Net income on sales of scrap materials | **4,583** | 1,956 |
| Net gains on disposal of property, plant and equipment | **–** | 633 |
| Realised and unrealised gains on structured deposits and wealth management products | **–** | 2,004 |
| Others | **1,443** | 956 |
| Total | **101,969** | 73,168 |

The subsidiaries of the Group, including Jiangsu Tiangong Tools New Materials Company Limited ("TG Tools"), Tiangong Aihe Company Limited ("TG Aihe"), Jiangsu Tiangong Technology Company Limited ("TG Tech"), Jiangsu Weijian Tools Technology Company Limited ("Weijian Tools") and Jurong Tiangong New Materials Technology Company Limited ("TG New Materials") located in the PRC, collectively received unconditional grants amounting to RMB14,840,000 (six months ended 30 June 2022: RMB17,177,000) from the local government as a reward for their contribution to the local economy and to encourage technology innovation. TG Tools, TG Aihe and TG Tech also recognised amortisation of government grants related to assets of RMB3,888,000 (six months ended 30 June 2022: RMB3,888,000) during the six months ended 30 June 2023.

## 6. OTHER EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Provision for loss allowance on trade and other receivables | **27,456** | 19,170 |
| Charitable donations | **2,873** | 800 |
| Net realised and unrealised losses on trading securities | **17** | 655 |
| Others | **2,613** | 8 |
| | **32,959** | 20,633 |

## 7. PROFIT BEFORE INCOME TAX

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

### (a) Net finance costs

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Interest income | **(23,460)** | (22,960) |
| Finance income | **(23,460)** | (22,960) |
| Interest on bank loans | **76,941** | 58,288 |
| Interest arising on other financial liability | **28,300** | 28,300 |
| Finance expenses | **105,241** | 86,588 |
| Net finance costs | **81,781** | 63,628 |

### (b) Other items

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Cost of inventories* | **1,926,849** | 2,014,959 |
| Amortisation of intangible assets | **3,589** | 950 |
| Depreciation of property, plant and equipment | **183,287** | 162,693 |
| Amortisation of lease prepayments (right-of-use assets) | **2,902** | 1,995 |
| Provision for write-down of inventories | **10,999** | 24,675 |

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

## 8. INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC Income Tax | **29,175** | 20,920 |
| Provision for Hong Kong Profits Tax | **147** | 20,749 |
| Provision for Thailand Corporate Income Tax | **149** | 366 |
| | **29,471** | 42,035 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(5,022)** | (15,070) |
| | **24,449** | 26,965 |

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

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

TG Tools, TG Aihe, Jiangsu Tiangong Precision Tools Company Limited ("Precision Tools"), TG Tech and Weijian Tools are subject to a preferential income tax rate of 15% 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%).

(c) Pursuant to the income tax rules and regulations of Hong Kong, the Group's subsidiaries in Hong Kong are liable to Hong Kong Profits Tax at a rate of 16.5% (2022: 16.5%).

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

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

## 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 RMB218,700,000 (six months ended 30 June 2022: RMB295,198,000) and the weighted average of 2,782,365,956 ordinary shares in issue during the interim period (six months ended 30 June 2022: 2,790,376,078).

### (b) Diluted earnings per share

The diluted earnings per share for the six months ended 30 June 2023 and 2022 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the periods.

## 10. TRADE AND OTHER RECEIVABLES

| | **At 30 June 2023** | At 31 December 2022 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **2,044,753** | 1,697,853 |
| Bills receivable | **741,749** | 699,453 |
| Less: loss allowance | **(139,970)** | (111,645) |
| Net trade and bills receivable | **2,646,532** | 2,285,661 |
| Prepayments | **248,306** | 223,327 |
| Non-trade receivables | **210,876** | 132,243 |
| Less: loss allowance | **(7,654)** | (8,523) |
| Net prepayments and non-trade receivables | **451,528** | 347,047 |
| | **3,098,060** | 2,632,708 |

As at 30 June 2023, certain intercompany trade receivables of RMB73,341,000 (2022: RMB145,131,000) have been pledged to a bank as security for the Group's bank loans.

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

| | **At 30 June 2023** ***RMB'000*** | At 31 December 2022 *RMB'000* |
|---|---|---|
| Within 1 year | **2,426,755** | 2,141,305 |
| 1 to 2 years | **196,022** | 113,999 |
| Over 2 years | **23,755** | 30,357 |
| | **2,646,532** | 2,285,661 |

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

## 11. TRADE AND OTHER PAYABLES

| | **At 30 June 2023** ***RMB'000*** | At 31 December 2022 *RMB'000* |
|---|---|---|
| Trade and bills payable | **1,591,061** | 1,272,129 |
| Contract liabilities | **39,542** | 23,476 |
| Dividends payable | **100,455** | – |
| Non-trade payables and accrued expenses | **270,626** | 364,174 |
| | **2,001,684** | 1,659,779 |

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

| | **At 30 June 2023** ***RMB'000*** | At 31 December 2022 *RMB'000* |
|---|---|---|
| Within 1 year | **1,537,838** | 1,233,172 |
| 1 to 2 years | **38,541** | 28,428 |
| Over 2 years | **14,682** | 10,529 |
| | **1,591,061** | 1,272,129 |

## 12. OTHER FINANCIAL LIABILITY

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

| | **At 30 June 2023** *RMB'000* | At 31 December 2022 *RMB'000* |
|---|---|---|
| Contingent redeemable capital contributions in a subsidiary | **1,552,950** | 1,524,650 |

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

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

## 13. CAPITAL, RESERVES AND DIVIDENDS

### Dividends

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

| | **2023** *RMB'000* | 2022 *RMB'000* |
|---|---|---|
| Dividends in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0362 per share (2022: RMB0.0594 per share) | **100,455** | 165,429 |

The directors did not recommend payment of an interim dividend for the interim period (no interim dividend for the six months period ended 30 June 2022).

### Purchase of own shares

The number of ordinary shares decreased due to the repurchase of shares conducted by the Company. For details, please refer to the section headed "Purchase, Sales or Redemption of Securities" on page 40 to this announcement.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | 2022 | | **Change** | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Die steel ("DS") | **1,145,497** | **45.9** | 1,384,435 | 51.8 | (238,938) | -17.3 |
| High speed steel ("HSS") | **381,901** | **15.3** | 532,480 | 19.9 | (150,579) | -28.3 |
| Cutting tools | **447,497** | **17.9** | 418,414 | 15.7 | 29,083 | 7.0 |
| Titanium alloy | **461,239** | **18.5** | 164,459 | 6.2 | 296,780 | 180.5 |
| Others | **60,277** | **2.4** | 170,372 | 6.4 | (110,095) | -64.6 |
| | **2,496,411** | **100.0** | 2,670,160 | 100.0 | (173,749) | -6.5 |

### DS – accounted for approximately 45.9% of the Group's revenue in 1H2023

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | 2022 | | **Change** | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **374,722** | **32.7** | 475,137 | 34.3 | (100,415) | -21.1 |
| Export | **770,775** | **67.3** | 909,298 | 65.7 | (138,523) | -15.2 |
| | **1,145,497** | **100.0** | 1,384,435 | 100.0 | (238,938) | -17.3 |

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

After the haze of the COVID-19 dissipated, except for new energy vehicles, the recovery of most industries was below expectation, resulting in a generally weak demand for DS in various downstream industries. Constrained by the slowdown in demand, the domestic revenue of the DS segment of the Group recorded a decrease of 21.1% to RMB374,722,000 (1H2022: RMB475,137,000). Nevertheless, the domestic demand was gradually improved in the second quarter of 2023 and is expected to recover in an orderly manner.

In terms of exports, in the context of high inflation, European and American countries raised interest rates to varying degrees, and maintained high interest rates for a period of time. Consequently, overseas customers became more cautious with their capital investment projects, resulting in a gradual slowdown in demand for steel products. Export revenue of DS segment recorded a decrease of 15.2% to RMB770,775,000 (1H2022: RMB909,298,000).

In the first half of 2023, the Group's overall turnover of DS segment decreased by 17.3% to RMB1,145,497,000 (1H2022: RMB1,384,435,000).

**HSS – accounted for approximately 15.3% of the Group's revenue in 1H2023**

| | **For the six months ended 30 June** | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | 2022 | | **Change** | |
| | ***RMB'000*** | **%** | *RMB'000* | % | *RMB'000* | % |
| Domestic | **182,980** | **47.9** | 219,540 | 41.2 | (36,560) | -16.7 |
| Export | **198,921** | **52.1** | 312,940 | 58.8 | (114,019) | -36.4 |
| | **381,901** | **100.0** | 532,480 | 100.0 | (150,579) | -28.3 |

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

Similar to the situation of DS, the recovery of most domestic industries was below expectation. With the advancement of domestic industries such as new energy vehicles, aerospace and high-tech industries, the market demand for high-end products (including powder metallurgy products) witnessed a steady expansion. The Group successfully captured this market segment as the first HSS supplier in China with expertise in powder metallurgy technology. The average selling price rose steadily, which partially offset the impact of the decline in demand. The overall domestic revenue of HSS segment decreased by 16.7% to RMB182,980,000 (1H2022: RMB219,540,000).

In terms of export, limited by the decline in demand caused by the digestion of inventory in overseas downstream segments (see the description of the cutting tools segment for details), and coupled with the impact of the macroeconomic downturn, sales volume declined significantly, resulting in a decrease in the export revenue of the HSS segment by 36.4% to RMB198,921,000 (the first half of 2022: RMB312,940,000).

Overall turnover of HSS segment decreased by 28.3% to RMB381,901,000 (1H2022: RMB532,480,000).

**Cutting tools – accounted for approximately 17.9% of the Group's revenue in 1H2023**

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | 2022 | | **Change** | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **177,477** | **39.7** | 148,693 | 35.5 | 28,784 | 19.4 |
| Export | **270,020** | **60.3** | 269,721 | 64.5 | 299 | 0.1 |
| | **447,497** | **100.0** | 418,414 | 100.0 | 29,083 | 7.0 |

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

Domestic sales volume of the cutting tools segment were basically similar to that of the same period of the previous year. The increase in average selling price of cutting tools segment was mainly due to the gradual increase in the sales mix of powder metallurgy HSS cutting tools and carbide cutting tools by the Group. Accordingly, the domestic revenue of the cutting tools segment increased by 19.4% to RMB177,477,000 (1H2022: RMB148,693,000).

The export volume of the cutting tools segment declined compared with the same period of the previous year. It was mainly due to the fact that overseas DIY cutting tools distributors were in the final phase of digesting the accumulated inventories and therefore there was a decrease in purchase orders received from the overseas distributors. On the other hand, affected by the transmission of the upstream HSS price increase, the average selling price increased compared with the same period of the previous year. In the first half of 2023, the export revenue increased slightly by 0.1% to RMB270,020,000 (the first half of 2022: RMB269,721,000).

In the first half of 2023, the revenue of the Group's cutting tools segment increased by 7.0% to RMB447,497,000 (1H2022: RMB418,414,000).

**Titanium alloy – accounted for approximately 18.5% of the Group's revenue in 1H2023**

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | 2022 | | **Change** | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic | **456,278** | **98.9** | 162,764 | 99.0 | 293,514 | 180.3 |
| Export | **4,961** | **1.1** | 1,695 | 1.0 | 3,266 | 192.7 |
| | **461,239** | **100.0** | 164,459 | 100.0 | 296,780 | 180.5 |

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

The revenue generated by the titanium alloy segment during the current period primarily stemmed from domestics sales. A substantial increase of 180.5% over the same period last year to RMB296,780,000 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 and to provide frame materials for an internationally renowned consumer electronics manufacturers. Both the sales volume and the average selling price of the current period increased significantly compared with the same period last year as the internationally renowned manufacturer entered the mass production stage of its new models in the current period. At the same time, the titanium alloy products selected by the internationally renowned manufacturer were also a high-standard model. The substantial increase in the sales volume of titanium alloy products with a higher average selling price changed the product structure of the segment, resulting in a substantial increase in the average selling price of products in the titanium alloy segment in the current period.

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 approximately 2.4% of the Group's revenue in 1H2023**

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

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2023** | | 2022 | | **Change** | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Export | **60,277** | **100.0** | 170,372 | 100.0 | (110,095) | (64.6) |

Affected by factors such as the global macroeconomic downturn and overcapacity in the electrical and electronics industries, segment revenue for the current period decreased by approximately RMB110,095,000, or approximately 64.6%, compared with the same period of the previous year.

## FINANCIAL REVIEW

Net profit attributable to equity shareholders of the Company decreased by 25.9% from RMB295,198,000 in the first half of 2022 to RMB218,700,000 in the first half of 2023. Detailed review of the individual components were as follows:

### Revenue

Revenue of the Group for the first half of 2023 totalled RMB2,496,411,000, representing a decrease of 6.5% when compared with RMB2,670,160,000 in the first half of 2022. As the recovery of the manufacturing industry was below expectation, except for a few industries such as new energy vehicles and certain consumer electronics, downstream demand was in a state of contraction. New orders from consumer electronics industry for titanium alloys and domestic sales of high-end cutting tools became the main drivers of turnover in the first half of 2023. For an analysis of individual segments, please refer to the "Business Review" section.

**Cost of sales**

The Group's cost of sales decreased from RMB2,014,959,000 for the first half of 2022 to RMB1,926,849,000 for the first half of 2023, representing a decrease of 4.4%. The decrease was mainly due to the decrease in the sales and production of tools steel during the period.

**Gross margin**

For the first half of 2023, gross margin was 22.8% (1H2022: 24.5%). Set out below is the gross margin for the five segments of the Group for the first half of 2022 and 2023:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2023** | 2022 |
| DS | **16.4%** | 21.5% |
| HSS | **17.6%** | 24.3% |
| Cutting tools | **24.6%** | 28.5% |
| Titanium alloy | **31.2%** | 20.2% |
| Others | **23.2%** | 21.9% |

***DS***

Demand was weak causing a unsmooth cost transmission of price increment in 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 21.5% in 1H2022 to 16.4% in 1H2023.

***HSS***

Similar situation as DS was noted in HSS segment. Despite higher valued added powder metallurgy products contributed an additional gross margin compared to DS, the overall gross margin of HSS decreased from 24.3% in 1H2022 to 17.6% in 1H2023.

***Cutting tools***

Gross margin of cutting tools decreased from 28.5% in 1H2022 to 24.6% in 1H2023. It was mainly because the output of cutting tools decreased compared to 1H2022. The decrease in scale effect led to an increase in average unit cost. On the other hand, the increase in sales mix of high-margin powder metallurgy tap products help offsetting the negative impact of decrease in production scale.

***Titanium alloy***

Since the fourth quarter of 2022, the Group officially entered the consumer electronics market by providing titanium alloy coil to certain consumer electronic processor which was then used as a key component in the production of consumer electronic products by internationally renowned manufacturer. The products supplied to this end customer were in higher standard and yielded higher gross margin compared to the traditional products. Gross margin of titanium alloy increased from 20.2% in 1H2022 to 31.2% in 1H2023.

***Others***

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

**Other income**

The Group's other income increased from RMB73,168,000 in the first half of 2022 to RMB101,969,000 in the first half of 2023. During the first half of 2023, USD and EUR inflated significantly against RMB. The Group's net monetary assets denominated in USD and EUR, which mainly arise from the export business, resulted in exchange gain during the first half of 2023.

**Distribution expenses**

The Group's distribution expenses were RMB57,238,000 (1H2022: RMB123,095,000), representing a decrease of 53.5%. Export revenue decreased by 21.6% from RMB1,664,026,000 in the first half of 2022 to RMB1,304,954,000 in the first half of 2023. In addition to the decline in export revenue, shipping cost was affected by the global economic environment in this period. Most of the ports adopted preferential policies for shipping, leading to a decrease in the average shipping price compared with the same period in 2022.

**Administrative expenses**

For the first half of 2023, the Group's administrative expenses was RMB73,409,000 (1H2022: RMB64,922,000) representing an increase of 13.1%. The increase was mainly due to some one-off expense including improvement on safety and environmental measure and professional fee incurred for due diligence on a potential acquisition. For the first half of 2023, administrative expenses as a percentage of revenue was 2.9% (1H2022: 2.4%).

**Research and development expenses**

The number of research and development projects in progress increased during the first half of 2023. Besides, the project were more related to high alloy composition products which led to an increase in material cost in carrying out those research and development projects. As a result, the research and development expenses increased from RMB138,217,000 in the first half of 2022 to RMB164,091,000 in the first half of 2023.

**Net finance costs**

The Group's net finance costs increased from RMB63,628,000 in the first half of 2022 to RMB81,781,000 in the first half of 2023, which was the result of higher average balance of interest-bearing bank loans during the period.

**Income tax expense**

The Group's income tax expense decreased from RMB26,965,000 in the first half of 2022 to RMB24,449,000 in the first half of 2023. The decrease was mainly due to the decrease in taxable income. The effective tax rates were comparable in both first half of 2022 and 2023.

**Profit for the period**

As a result of the factors set out above, the Group's profit decreased by 19.8% to RMB242,338,000 for the first half of 2023 from RMB302,325,000 for the first half of 2022. The Group's net profit margin for the first half of 2023 was 9.7% (1H2022: 11.3%). The decrease was mainly due to the squeezing of gross profit margin as a result of weakening of product demand for tools steel.

**Profit attributable to equity shareholders of the Company**

For the first half of 2023, profit attributable to equity shareholders of the Company was RMB218,700,000 (1H2022: RMB295,198,000), representing a decrease of 25.9%.

**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) and 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)*). All of these investments were stated at their fair value. The increase was caused by an increase in fair market value of certain of these financial assets.

**Financial assets measured at fair value through profit or loss**

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

**Trade and bills receivable**

Net trade and bills receivable increased from RMB2,285,661,000 as at 31 December 2022 to RMB2,646,532,000 as at 30 June 2023. Loss allowance of RMB139,970,000 (2022: RMB111,645,000) accounted for 5.0% (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.

**Trade and other payables**

Trade and other payables increased from RMB1,659,779,000 as at 31 December 2022 to RMB2,001,684,000 as at 30 June 2023. The increase was mainly caused by (i) the 2022 dividend payable which was recognized as liability until it was approved in the Company's annual general meeting held on 6 June 2023 and (ii) increase in ordering spongy titanium as a raw material to fulfil the increased sales order of titanium alloy segment.

## INDUSTRY REVIEW

In pursuing economic development during the first half of 2023, China faces the triple pressures in the form of shrinking demand, disrupted supply and weakening expectations. However, there are signs of gradual easing, primarily due to the increasing contribution of domestic demand to economic growth. China's gross domestic product (GDP) growth rate in the first quarter reached 4.5%, surpassing market expectations. Driven by government policies that boost consumption, the vitality and consumption power of the service industry released quickly. Overall consumer spending power experienced moderate recovery in the second quarter, leading to a GDP growth rate of 6.3% in the second quarter. Coupled with sustained growth in infrastructure investments, investments in high-tech industries are expected to provide support to manufacturing growth. Downstream demand is expected to rebound, stabilize and begin a gradual recovery in an orderly manner.

In terms of overseas markets, the global economic downturn has shown signs of easing, accompanied by a decrease in inflation levels towards the end of 1H2023. The global service sector experienced stable recovery. In particular, economies where consumer spending accounts for a significant share of their GDP, such as Europe and the United States, outperformed expectations. However, despite the improvement in economic conditions, global economic growth remained constrained by unfavorable factors, such as tight monetary policies and weak consumer sentiment. Moreover, declined trade and investment demand, coupled with the "onshoring" production of the global industrial chain, has led to further reduction in the scale of trade in intermediate and finished goods, which will continue to constrain production and exports in emerging economies in the Asia-Pacific region.

During the period under review, the operating conditions of the steel industry remained uncertain at home and abroad, leading to a further decline in profitability on a year-on-year basis. According to statistics published by the China Iron and Steel Association, in the first six months of 2023, the operating revenue of key steel enterprises was RMB3.19 trillion, representing a year-on-year decrease of 5.56%. Operating cost decreased by 3.06% year-on-year. Operating revenue declined additional 2.5 percentage points compared to operating cost. Total operating profit was RMB33 billion, representing a year-on-year decrease of 68.8%. Average profit margin was 1.03%, representing a year-on-year decrease of 2.1 percentage points. Nevertheless, the loss making percentage further narrowed to 44.6%, represented an increase of 17.4 percentage points over the same period last year.

## MARKET REVIEW

In the first half of 2023, mainstream enterprises found it challenging to release their production output in a sustainable manner due to a prolonged period of low profitability or even loss-making in the DS sector during the period. Consequently, the domestic production of DS during the first half of the year was significantly lower than the same period last year. However, new energy vehicles gradually became a growth engine for die steel, driving steady growth in the automotive mold industry. According to data from the China Association of Automobile Manufacturers, during the first half of the year, automobile production and sales increased by 11.1% year on year to 10.687 million and 10.617 million vehicles, respectively, indicating positive growth in terms of cumulative production and sales. In terms of policy support, in June this year, the State Council convened an executive meeting to explore policies and measures to promote the high-quality development of the new energy automobile industry, which will further release the potential of new energy vehicles to drive the mold market.

Cutting tools are the main application market for HSS and certain alloy steel. In recent years, the machine tool industry has witnessed a significant increase in export volume, establishing itself as a key driver of demand. According to data of China Customs, China's export volume from the machine tool industry increased from approximately US$13.61 billion in 2018 to US$20.95 billion in 2022, representing a growth of 54%. From January to June 2023, the total export volume of the machine tool industry reached US$10.34 billion, representing a year-on-year increase of 4.5%. The accelerated export in the domestic machine tool and cutting tools industries was attributed to the surge in regional demand driven by geopolitical factors and continuing improvement in the quality of domestical machine tools and cutting tools, which now is in position to compete with their overseas counterparts. As overseas regions experience economic growth and rising demand, this trend will benefit the leading domestic companies to further increase their share of overseas business. 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 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. According to data published by the China Machine Tool Industry Association (中國機床行業協會) and www.chyxx.com (智研諮詢), in 2022, the CNC rate of metal cutting machine tool and metal forming machine tool in China was only 46.3% and 11.3%, respectively, indicating that there is still significant potential for the development of CNC machine tool.

In terms of policies, the National Development and Reform Commission implemented certain policies in June this year which promoted the accelerated mergers in industries such as steel, with the aim of enhancing industrial modernization, strengthening the real economy, and promoting the digital transformation of traditional industries. At the same time, the Ministry of Industry and Information Technology, the Ministry of Education, the Ministry of Science and Technology, the Ministry of Finance, and the State Administration for Market Regulation jointly issued the "Implementation Opinions on Enhancing Manufacturing Industry Reliability" (the "Implementation Opinions") with the goal of improving the reliability of products in industries such as machinery, electronics, and automobiles. Currently, there are still room for improvement in the reliability of certain foundational and complete machine products in China, such as precision reducers, high-end bearings, and advanced semiconductor materials. The Implementation Opinions plan to enhance the reliability of core components and materials through "Industrial Foundation Improvement" projects, meaning strengthening the industry base, to strengthen the reliability of related products. Furthermore, in accordance with the earlier "Guiding Opinions on Promoting High-Quality Development of the Steel Industry" jointly issued by the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Ecology and Environment, efforts are being made to pave the way for high-quality development in the steel industry by 2025. Steel enterprises are encouraged to continuously enhance their independent innovation capabilities, with the optimization of industrial structure and the development of green and low-carbon practices as the primary goals. These policies will further consolidate the development of China's steel industry, align it with international standards, and facilitate the pursuit of high-quality global competitiveness.

The titanium alloy industry has historically faced challenges with high costs. As a result, titanium alloys have found more widespread applications in areas such as aerospace and marine engineering, where price sensitivity is lower. Yet, use of titanium alloy is more limited in consumer-oriented sectors including biomedicine and consumer electronics. In recent years, the cost issue has gradually been addressed. On one hand, the increasing demand for product quality from consumers has led to a growing market demand for titanium alloys in civilian markets. On the other hand, technologically advanced companies have significantly improved the performance of titanium alloys, increasing their acceptance in the market and expanding their application scope. These efforts have provided a key driving force for the rapid expansion of titanium alloys in the civilian market and have propelled the titanium alloy industry onto a high-growth trajectory.

## ACCOMPLISHMENTS

The Jiangsu Provincial Department of Industry and Information Technology recently announced that TG Tech, a subsidiary of the Company, has been successfully selected as a national-level "Small Giant" enterprise with specialized, sophisticated techniques and unique, novel products, which is recognized by the Ministry of Industry and Information Technology and represents leading companies that focus on niche markets, possess strong innovation capabilities, have a high market share, control key core technologies, and demonstrate superior quality and efficiency. This is a significant recognition of the Group's technological strength, product capabilities, and innovation abilities.

On 15 June 2023, the Resolution Regarding the Company's Application for the Public Issuance of Stocks and Listing on the Beijing Stock Exchange was passed at the general meeting of TG Tech, marking an important step for TG Tech to be listed on the Beijing Stock Exchange. The proceeds raised from this listing will be used for the construction of a production line for high-end titanium and titanium alloy rods and coil with an annual output of 3,000 tons. This will significantly strengthen the Group's production capacity and scale advantage in the titanium alloy field, which will in turn help optimize the product line structure and enhance our comprehensive capabilities.

## FUTURE OUTLOOK

### Operation Strategy

The Group has been leading the industry with its professional equipment, technological and managerial advantages. Over the year, the Group has been focusing on research and development and cost control, and is committed to transforming its long-standing achievements and experience into innovative applications in the steel metallurgy industry, thereby empowering the development and upgrade of the industry, while also striving to meet the domestic market demand and gain international market share. Precise strategies, efficient execution ability and world-leading technology are the three cores pillars of the Group.

### Domestic industry development

In recent years, the steel industry has experienced supply-side fluctuations as a result of capacity expansion, policy restrictions, profitability levels, and other factors. In recent years, policies have played a prominent role in regulating and optimizing the industrial landscape from various aspects, such as production capacity, output, and environmental protection. Following structural reforms on the supply side, steel enterprises have improved their capacity for self-adjustment amidst the increasing industrial concentration, leading to the optimization and development of the industry structure.

On the demand side, the downstream of the mechanical industry is broad, involving a wide variety of steel products. The automotive industry continues to provide growth impetus to the steel industry, in which new energy vehicles place more emphasis on lightweight development. 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.

Meanwhile, China's titanium alloy industry is accelerating its transformation pace, with the civilian titanium market holding great potential. In recent years, with the promotion of domestic high-end titanium applications in military and aerospace fields such as aircraft fuselage structures, aviation engines, missiles and ships, the domestic titanium alloy industry has gradually moved towards high-end development, constantly accumulating technological and innovative achievements. As the cost of titanium alloys decreases and their excellent performance is increasingly recognized, the civilian market has also begun to open up gradually. Such fields as nuclear power, aviation, and healthcare also see a growing application of titanium alloy products. Additionally, domestic titanium alloy applications see active expansion in sectors such as outdoor sports and daily consumption, leading to the constant growth of the entire industry chain in terms of branding, design and marketing. The downstream market is steadily expanding, demonstrating the broad development space of the civilian titanium alloy market.

**Export operation**

China's steel consumption is primarily driven by domestic demand. However, China's steel exports have always occupied an important position in the global market for some years. As the industry continues to evolve, the special steel sector is developing towards globalization and deep processing. In recent years, the special steel sector has maintained steady growth and continues to promote high-end development. The new demand for special steel comes from the improvement and continuous upgrading of domestic demand, as well as the expansion of exports driven by global trend of marketization. Overseas special steel leaders place great emphasis on the quality of local enterprises' products and the innovation of high value-added products, thereby driving technological progress throughout the entire industry chain. In China, the special steel industry has also developed different levels of advantageous products with distinctive characteristics, and has reached collaborative cooperation with a wide range of downstream industries. As of 2022, the crude steel output of key high-quality special steel enterprises in China reached 146 million tons, accounting for 14.4% of the country's total crude steel production.

Against the backdrop of the global pandemic and the Russia-Ukraine conflict, the price difference in imports and exports has rapidly narrowed, reflecting the changes and instability in the international market. In 2022, China's exports of special steel products reached 11.46 million tons, with an average unit price of US$1,840 per ton, while imports of special steel products amounted to 5.19 million tons, with an average unit price of US$2,106 per ton. These statistics reveal the competitive position of China's special steel industry in the global market and reflect the price dynamics and demand trends in the international special steel market. As China's special steel industry continues to advance towards high-end and specialization with an active exploration into new markets and application fields, it will continue with steady growth on the international stage.

**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 launched in 2022 and is expected to be completed in the second half of this year with a designed production capacity of 50 million pieces, bringing the total production capacity of the two-phase project 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 industrial DS powder metallurgy production line in the PRC in December 2019, the Group successfully entered the powder metallurgy industry. Standing as the only enterprise in the domestic cutting tools realm with a comprehensive industry chain, from high-end powder materials to powder tools, the Group has made significant breakthroughs in overcoming foreign technical monopolies and tapping into the high-end market.

During the period under review, the Group showed continuous vitality in the field of powder metallurgy, with ongoing progress in the research and development of high-end products. In the first half of 2023, 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. An additional production capacity of 5 million pieces of powder metallurgy taps will be initiated soon to achieve 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.

***Diversified Cutting Tools Industry***

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

During the period 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***

Titanium alloy coil made from titanium are used in a wide range of applications, and its customizable characteristic enables it to be used in downstream scenarios such as eyeglass frames, 3D printing and 3C (computer, communication and consumer-electronics) products. Moving forward, the Group will continue to explore the market for titanium alloy coil by actively coordinating with downstream customers to develop more application projects.

TG Tech, a subsidiary of the Company, has entered into an important cooperation with a domestic consumer electronics supply chain processor since 2022. The cooperation involves the use titanium alloy coil 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. This breakthrough in the consumer electronics sector not only marked a milestone in the development of the Group's titanium alloy business but also held significant importance in enhancing our brand awareness and market competitiveness, which in turn will help further exploration of potential new customers. Furthermore, the Group continued to develop other titanium alloy-related consumer products, including the eyewear industry and 3D printing, and is actively considering expanding titanium alloy production capacity to meet the growing demand from new orders.

As a pioneer in the Chinese titanium alloy industry, the Group has gradually grown 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.

**Marketing Strategy**

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

**Green Development**

In January 2022, the "Guiding Opinions on Promoting the High-Quality Development of the Iron and Steel Industry" (《關於促進鋼鐵工業高質量發展的指導意見》) was jointly issued by the National Development and Reform Commission, the Ministry of Ecology and Environment and the Ministry of Industry and Information Technology, clearly proposing the construction of a resource recycling system and requiring the completion of the ultra-low emission transformation of over 80% of steel production capacity. The Guiding Opinions also set specific targets, including reducing comprehensive energy consumption per tonne of steel by more than 2% and decreasing water consumption intensity by more than 10%, so as to ensure carbon peaking is achieved by 2030. Subsequently, the "Implementation Plan for Carbon Peaking in the Industrial Sector" (《工業領域碳達峰實施方案》) was jointly issued by the National Development and Reform Commission, the Ministry of Ecology and Environment and the Ministry of Industry and Information Technology in July 2022, which further affirmed the government's determination for the transformation of the iron and steel industry. It proposed breakthroughs and application goals for technologies such as hydrogen-rich carbon-cycle BF ironmaking (富氫碳循環高爐冶煉), hydrogen-based direct-reduction ironmaking in a shaft furnace (氫基豎爐直接還原鐵), and carbon capture, utilization and storage (CCUS), and expected the proportion of short-process steelmaking to exceed 20%.

Considering the direction of relevant policies, low-carbon and environmentally friendly development will undoubtedly become a prerequisite for the survival and growth of steel enterprises in their next stage. This is not only an important realization of corporate social responsibility, but also a key driver for the entire iron and steel 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. TG Tools, a subsidiary of the Group, was included in the list of "'City-level Green Factory' in 2022" released by the Industry and Information Technology Bureau of Zhenjiang City.

During the period under review, 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 2022, the Group ranked among the leading players in the Chinese steel industry, with marked improvement in scores related to corporate governance and social aspects during the period under review, demonstrating the Group's commitment to sustainable development. Moving forward, while vigorously developing its business, the Group will continue to devote itself to 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 made significant investments to create a comprehensive digital information system, "Digital Tiangong", encompassing all of the Group's business sectors. 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, and greatly enhance the competitiveness of the Group. In the meantime, 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.

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

## OUR MISSION

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

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

## FORWARD LOOKING STATEMENTS

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

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

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group's current assets mainly included cash and cash equivalents of RMB1,245,984,000, inventories of RMB2,725,573,000, trade and other receivables of RMB3,098,060,000, time deposits of RMB1,570,275,000 and pledged deposits of RMB281,541,000. The Group's current assets were RMB8,922,457,000 compared to RMB7,918,937,000 as at 31 December 2022, an increase of 12.7%.

As at 30 June 2023, interest-bearing borrowings of the Group were RMB3,452,918,000 (31 December 2022: RMB2,895,313,000), RMB2,704,018,000 (31 December 2022: RMB1,866,813,000) of which were repayable within one year and RMB748,900,000 (31 December 2022: RMB1,028,500,000) of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was 4.9% (31 December 2022: 2.7%).

As at 30 June 2023, interest-bearing borrowings of RMB2,676,010,000 (31 December 2022: RMB1,954,000,000) were denominated in RMB, USD2,000,000 (31 December 2022: USD15,705,000) were denominated in USD, EUR74,075,000 (31 December 2022: EUR88,732,000) were denominated in EUR and HKD194,115,000 (31 December 2022: HKD194,115,000) were denominated in HKD. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 2.53% to 7.73% (31 December 2022: 0.79% to 4.75%). Net cash generated from operating activities during the period was RMB153,695,000 (1H2022: net cash used in operating activities RMB206,752,000).

## CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2023, the Group's net decrease in property, plant and equipment amounted to RMB31,361,000 (1H2022: net increase of RMB23,813,000). The net decrease was mainly caused by the depreciation for the period. As at 30 June 2023, capital commitments were RMB596,311,000 (31 December 2022: RMB268,986,000), of which RMB51,506,000 (31 December 2022: RMB58,268,000) was contracted for and RMB544,805,000 (31 December 2022: RMB210,718,000) was authorised but not contracted for. The majority of capital commitments related to expansion of capacity for titanium alloy segment and upgrade of other production lines.

## RISK AND PREVENTION

### Operating Exposure

In the first half of 2023, China experienced a year-on-year economic growth of 5.5%. Yet, the journey towards a complete economic recovery still requires a more robust intrinsic drive, and there is a need to bolster the confidence of private enterprises. Fortunately, the accelerated pace of innovation industries and green transformation will inject new impetus into China's economic development. Conversely, during the period under review, the external environment became more complex and challenging, as the global economic slowdown would constrain China's export growth. Following the mid-year meeting of the Politburo, the PRC government successively introduced measures such as the "20 Measures" to restore and boost consumption and the "28 Measures" to promote the development of the private economy. China Securities Regulatory Commission has also expressed its intention to comprehensively implement measures from the investment side and financing side to trading side to stimulate the vitality of the capital market. In the future, macroeconomic policies are expected to provide greater support and better unleash the potential of domestic demand to support stable economic growth.

As a renowned manufacturer of advanced basic materials such as HSS, DS, precision cutting tools, and key strategic materials such as titanium alloys, the Group has developed into a high-quality enterprise with global competitiveness as a leading international player in the tools steel industry. In response to the domestic reliance on imported high-end cutting tools, the Group has delved deep into powder metallurgy technology, breaking foreign technological monopolies, tapping into the high-end market, achieving import substitution, and enabling the localization of high-end cutting tools. While capturing the domestic market, we are expanding our market share in international industrial markets, automotive industries, and precision aerospace industries. In recent years, we have also been committed to promoting vertical integration transformation and continuously consolidating competitive barriers. The Group is confident to continue deepening the complete industrial chain of high-end precision cutting tools and fully benefit from the rapid development of domestic substitution and overseas demand.

Improving efficiency at lower costs represents a necessary strategy to address the current economic conditions. Faced with increasing competition and uncertainties in globalization, businesses need to continuously seek to maximize efficiency to strengthen their competitiveness. The Group, through the implementation of the second phase of "Digital Tiangong", is accelerating the digitization and informatization upgrade of production facilities, enhancing transparent production management, adopting technology to effectively cope with labor fluctuations, and implementing intelligent logistics, with overall production costs reduced. By strengthening our competitiveness, we will further control the risks associated with rising energy and global production costs.

Furthermore, sustainable development in the industry is crucial for steel enterprises. In recent years, the Group has invested heavily in green development in active response to the government's dual carbon goals. In line with the tightening requirements for sustainable development in China, the Group has spared no effort in areas such as emission reduction, energy conservation, environmental protection, and technological innovation, while adhering to practical actions to meet the expectations of the country and society for a greener lifestyle.

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

**Foreign Exchange Exposure**

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for 47.7% (1H2022: 37.7%). 52.3% (1H2022: 62.3%) of the total sales and operating profit was subject to exchange rate fluctuations. The Group did not enter into any financial instruments to hedge against foreign exchange risk. The Group has put into place measures such as monthly reviews of product pricing in light of foreign exchange fluctuation and incentivising overseas customers to settle balances on a timely basis to minimise any significant financial impact from exchange rate exposure.

## PLEDGE OF ASSETS

As at 30 June 2023, the Group pledged certain bank deposits amounting to approximately RMB281,541,000 (31 December 2022: RMB140,041,000) and certain intercompany trade receivables amounting to RMB73,341,000 (31 December 2022: RMB145,131,000). Details are set out in the notes to the interim financial statements.

## EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2023, the Group employed 3,548 employees (31 December 2022: 3,134). The Group provided employees with remuneration packages comparable to the market rates and employees are further rewarded based on their performance according to the framework of the Group's salary, incentives and bonus scheme. In order to enhance the Group's productivity and further improve the quality of the Group's human resources, the Group provides compulsory continuous education and training for all of its staff on a regular basis.

## CONTINGENT LIABILITIES

Both the Group and the Company had no material contingent liabilities as at 30 June 2023 (31 December 2022: No material contingent liabilities).

## INTERIM DIVIDEND

The Directors do not recommend payment of an interim dividend for the period (no interim dividend for the six months period ended 30 June 2022).

## 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 six months ended 30 June 2023 and there were no outstanding share options as at 30 June 2023.

During the six months ended 30 June 2023, the Company did not have any share award scheme in place.

## PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 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 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 |
| Total | 10,000,000 | | | 22,728,772 |

Save as disclosed, during the six months ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2023, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## EVENTS AFTER REPORTING PERIOD

There were no important events affecting the Company and its subsidiaries which have occurred since the end of the reporting period and up to the date of this announcement.

## AUDIT COMMITTEE

The Audit Committee comprises three INEDs. The Audit Committee held a meeting on 24 August 2023 to consider and review the interim report and interim financial statements of the Group and to give their opinion and recommendation to the Board. The Audit Committee considers that the 2023 interim report and interim financial statements of the Group have complied with the applicable accounting standards and the Group has made appropriate disclosure thereof.

## APPRECIATION

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

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

Hong Kong, 25 August 2023

*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 and WANG Xuesong*

* *For identification purposes only*