天工國際有限公司*

TIANGONG INTERNATIONAL COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 826

Interim Report 2017

Contents

Corporate Information

Stock Code
Hong Kong Stock Exchange 826

Board Of Directors
Executive Directors
Mr. Zhu Xiaokun *(Chairman)*
Mr. Wu Suojun *(Chief Executive Officer)*
Mr. Yan Ronghua
Mr. Jiang Guangqing

Independent Non-executive Directors
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis
Mr. Wang Xuesong

Company Secretary
Mr. Lee Johnly

Authorized Representatives
Mr. Lee Cheuk Yin, Dannis
Mr. Lee Johnly

Audit Committee
Mr. Lee Cheuk Yin, Dannis *(Chairman)*
Mr. Gao Xiang
Mr. Wang Xuesong

Remuneration Committee
Mr. Wang Xuesong *(Chairman)*
Mr. Zhu Xiaokun
Mr. Gao Xiang
Mr. Lee Cheuk Yin, Dannis

Nomination Committee
Mr. Gao Xiang *(Chairman)*
Mr. Zhu Xiaokun
Mr. Wang Xuesong
Mr. Lee Cheuk Yin, Dannis

Registered Office in the Cayman Islands
P.O. Box 309
G.T. Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

Principal Place of Business
Danbei Town
Zhenjiang City
Jiangsu Province
The PRC

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

Hong Kong Legal Adviser
Reed Smith Richards Butler
20th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

Principal Share Registrar and Transfer Office
SMP Partners (Cayman) Limited
(formerly known as Royal Bank of Canada Trust Company (Cayman) Limited)
Royal Bank House
3rd Floor, 24 Shedden Road
P.O. Box 1586, Grand Cayman
KY1-1110, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office in Hong Kong
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Center
183 Queen's Road East, Wanchai
Hong Kong

Principal Bankers
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Bank of China Limited
The Export-Import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

Business and Market Review

	For the six months ended 30 June					
	2017		2016		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel ("DS")	**786,331**	**41.9**	534,209	34.1	252,122	47.2
High Speed Steel ("HSS")	**306,052**	**16.3**	206,838	13.2	99,214	48.0
Cutting tools	**232,079**	**12.4**	237,519	15.1	(5,440)	(2.3)
Titanium alloy	**84,101**	**4.5**	98,416	6.3	(14,315)	(14.5)
Trading of goods	**468,442**	**24.9**	491,252	31.3	(22,810)	(4.6)
	1,877,005	**100.0**	1,568,234	100.0	308,771	19.7

After the efforts devoted to develop the eastern and southern China market through strategic partners and gaining additional market share as a result of removal of excess capacity in the PRC steel industry in 2016, Tiangong International Company Limited (the "Company") and its subsidiaries (collectively the "Group") successfully recovered from the trough of the industry. Both DS and HSS recorded a significant growth in sales volume, especially in the PRC domestic market.

At the same time, driven by an upward pricing trend in rare metals to which the Group uses as raw materials, the average selling price of the Group's products generally increased since most of the increased cost of rare metals was conductible to customers in the special steel industry.

With the positive impact on both sales volume and average selling prices, the Group recorded an overall 19.7% growth in revenue, mainly contributed by the two major segments, DS and HSS.

DS – accounted for approximately 42% of the Group's revenue in 1H2017

	For the six months ended 30 June					
	2017		2016		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	**428,607**	**54.5**	223,422	41.8	205,185	91.8
Export	**357,724**	**45.5**	310,787	58.2	46,937	15.1
	786,331	**100.0**	534,209	100.0	252,122	47.2

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

In 1H2017, revenue generated from the DS segment increased by approximately 47.2% to RMB786,331,000 (1H2016: RMB534,209,000). Driven by an upward pricing trend in rare metals to which the Group uses as raw materials, the average selling prices of DS products generally increased.

In accordance with the strategic plan to penetrate the eastern and southern China markets, the Group established associates, Jiangsu Ningxing Tiangong Mould Company Limited and Shenzhen 51 Mocai Technology Company Limited, in the relevant areas in the second half of 2016 to strengthen its distribution network in the domestic PRC market. Coinciding with a recovery in demand in the domestic PRC market in the first half of 2017, the strategic plan achieved a significant return. Accordingly, there was an increase in domestic revenue by 91.8% to RMB428,607,000 (1H2016: RMB223,422,000).

Regarding overseas markets, demand was relatively stable compared to the first half of 2016, with 3% increase in sales volume was recorded. An increase in export revenue of 15.1% to RMB357,724,000 (1H2016: RMB310,787,000) was mainly attributable to an increase in average selling prices of DS products.

HSS – accounted for approximately 16% of the Group's revenue in 1H2017

	For the six months ended 30 June					
	2017		2016		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**208,613**	**68.2**	138,405	66.9	70,208	50.7
Export	**97,439**	**31.8**	68,433	33.1	29,006	42.4
	306,052	**100.0**	206,838	100.0	99,214	48.0

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

Similar to situation in DS, average selling prices of HSS products generally increased as a result of rising procurement prices of rare metals. However, recovery of demand in HSS was relatively slower compared to DS.

In the PRC domestic market, a moderate recovery in demand in HSS was experienced. Coupled with the impact of an increase in average selling prices, domestic revenue increased by 50.7% to RMB208,613,000 (1H2016: RMB138,405,000).

For overseas markets, recent market development efforts allowed the Group's HSS products to gain a new application footprint. The application of the Group's HSS products has now been applied by new customers who produce thimble and complex tools. With this wider application and coverage, export revenues of HSS increased by 42.4% to RMB97,439,000 (1H2016: RMB68,433,000).

Cutting tools – accounted for approximately 12% of the Group's revenue in 1H2017

	For the six months ended 30 June					
	2017		2016		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**109,738**	**47.3**	85,537	36.0	24,201	28.3
Export	**122,341**	**52.7**	151,982	64.0	(29,641)	(19.5)
	232,079	**100.0**	237,519	100.0	(5,440)	(2.3)

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 bills and screw taps. The Group's vertical integration extending from upstream HSS production to downstream HSS cutting tool production brought us a significant cost advantage over our peers. The high end carbide tools manufactured by the Group mainly comprised of customised tools.

Competition in both the PRC domestic and overseas markets of cutting tools remained severe. A competitive pricing strategy has been consistently applied since the second half of 2016.

In the PRC domestic market, the demand for cutting tools was supported by the recovery of various manufacturing industries, such as automobile, home appliance and shipbuilding industries. As such, under the Group's competitive pricing strategy, an increase in sales volume fully contributed to an increase in domestic revenue by 28.3% to RMB109,738,000 (1H2016: RMB85,537,000).

For overseas market, certain demand for high end cutting tools shifted from HSS cutting tools to carbide tools. To cope with this change in the demand, the Group commenced the production of high end carbide tools in 2016. During this transitional period, the Group's export sales volume was affected, which resulted in a decrease in export revenue by 19.5% to RMB122,341,000 (1H2016: RMB151,982,000).

Titanium alloy – accounted for approximately 5% of the Group's revenue in 1H2017

	For the six months ended 30 June					
	2017		2016		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**81,927**	**97.4**	98,416	100.0	(16,489)	(16.8)
Export	**2,174**	**2.6**	–	–	2,174	–
	84,101	**100.0**	98,416	100.0	(14,315)	(14.5)

Titanium alloy segment has been a growing segment among the Group's products. The corrosion resistance nature of the titanium alloy promoted the extensive applications of titanium alloy in various industries, including aerospace, chemical pipeline equipment, nuclear and ocean industries.

After 4 years of efforts to capture titanium alloy market share, the Group adjusted its pricing strategy to strengthen the profitability of its titanium alloy products. Titanium alloy was priced at a more profitable level in the first half of 2017. Accordingly, compromised by a decrease in sales volumes, higher average selling prices were set to achieve long term profitability. Domestic revenue fell by 16.8% to RMB81,927,000 (1H2016: RMB98,416,000).

The Group started to export titanium alloy from the second half of 2016. The Group continued to develop overseas markets in 2017 with relatively good progress achieved.

Trading of goods

This segment involves the purchases and sales of normal carbon steel products which were not within the Group's production scope. Due to its slim profitability, the Group will place less focus on this segment in the future.

Outlook

After improving pricing power in the PRC domestic market and establishing a distribution network in the eastern and southern China market, the Group understood that research and development and, eventually, product advancement were essential to allow itself to fully utilise the advantage in pricing and distribution.

To enhance the Group's innovation and research and development capacity, a new research centre will be put into full operation by the end of 2017. In the meantime, new research projects are developed with the co-operation of various research institutes, including Nanjing Tech University. All the new research and development projects to be conducted at the new research centre would be related to applying the Group's products into new material industry specified in the "China's 13th Five-Year Plan" and "China Manufacturing 2025", aligning with the national development direction of China.

The Group believes that innovation and advancement are the best way to remain competitive and will eventually realise the true value of the Group's businesses.

Last but not least, we re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance is always our top priority.

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 Group'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 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.

Financial review

Net profit attributable to equity shareholders of the Company increased by approximately 52.8% from RMB25,713,000 in the first half of 2016 to RMB39,290,000 in the first half of 2017. The increase was mainly attributable to (i) rebound of sales volume of the Group's DS and HSS segments during the period; and (ii) upward pricing trend in rare metals to which the Group uses as raw materials, which in turn stimulated an increase in the average selling prices of the Group's DS and HSS segments.

Revenue

Revenue of the Group for the first half of 2017 totalled RMB1,877,005,000, representing an increase of 19.7% when compared with RMB1,568,234,000 in the first half of 2016. The increase was mainly attributable to an increase in revenue of the Group's two major segments, DS and HSS.

Cost of sales

The Group's cost of sales increased from RMB1,381,307,000 for the first half of 2016 to RMB1,662,936,000 for the first half of 2017, representing an increase of 20.4%. The increase was mainly due to an increase in sales during the period.

Gross margin

For the first half of 2017, gross margin was 11.4% (1H2016: 11.9%). Set out below is the gross margin for our five segments for the first half of 2016 and 2017:

	For the six months ended 30 June	
	2017	2016
DS	**15.0%**	18.2%
HSS	**17.2%**	17.0%
Cutting tools	**14.2%**	16.8%
Titanium alloy	**11.5%**	13.7%
Trading of goods	**0.14%**	0.19%

DS

The gross margin of DS decreased from 18.2% in the first half of 2016 to 15.0% in the first half of 2017. While the average selling price was stimulated by an upward pricing trend in rare metals to which the Group uses as raw materials, gross margin fell because of the time lag between the time when procurement prices of raw materials increased and the time when the Group increased the average selling prices of its products after peers reflected such increase in order to ensure the Group remained price competitive. As a result, gross margin was squeezed in the transitional period leading to a fall in the overall gross margin of DS during the reporting period.

HSS

The HSS gross margin remained stable at 17.2% in the first half of 2017 compared to 17.0% in the first half of 2016. For HSS, other than chromium, molybdenum and vanadium, tungsten was specifically used for the production of HSS and contributed a major composition among the rare metals. During the first half of 2017, the price of tungsten remained relatively stable compared to other rare metals. Consequently, gross margin of HSS was less affected and remained stable at 17%.

Cutting tools

The gross margin of cutting tools decreased from 16.8% in the first half of 2016 to 14.2% in the same period in 2017. The decrease was mainly due to the competitive pricing strategy applied by the Group to secure market share in domestic and overseas markets.

Titanium alloy

The gross margin of titanium alloy decreased from 13.7% in the first half of 2016 to 11.5% in the first half of 2017. Although the Group changed to a profitable pricing strategy, titanium alloy products encountered similar gross margins pressure as DS. The price of raw materials of titanium alloy, spongy titanium, was also in an upward trend. The gross margin of titanium alloy products was squeezed in this continuous upward trend.

Other income

The Group's other income decreased from RMB7,325,000 in the first half of 2016 to RMB6,308,000 in the first half of 2017. The decrease was mainly attributable to the combined effect of (i) decrease in the PRC government grants received from the PRC government; and (ii) dividend income from listed securities in PRC, which was nil in the same period in 2016.

Distribution expenses

The Group's distribution expenses were RMB42,255,000 (1H2016: RMB28,829,000), representing an increase of 46.6%. The increase was mainly due to (i) significant increase in sales volume compared to the same period of 2016; and (ii) marketing and advertising campaign expenses incurred in 2017 related to "China Manufacturing Forum 2025". For the first half of 2017, distribution expenses as a percentage of revenue were 2.3% (1H2016: 1.8%).

Administrative expenses

For the first half of 2017, the Group's administrative expenses decreased to RMB63,429,000 (1H2016: RMB67,363,000). The decrease was mainly due to incentive provided to raise morale of the work force to cope with the recession in 2016. Such incentive was not provided in 2017. For the first half of 2017, administrative expenses as a percentage of revenue were 3.4% (1H2016: 4.3%).

Net finance cost

The Group's net finance cost increased from RMB54,274,000 in the first half of 2016 to RMB56,438,000 in the first half of 2017, which was attributable to lower interest income generated from a lower average bank balance during the first half of 2017.

Income tax expense

The Group's income tax expense decreased from RMB6,372,000 in the first half of 2016 to RMB5,197,000 in the first half of 2017. The decrease was due to the encouragement of research and development by the local government. Research and development expenses were given an extra income tax deduction, which provided a tax saving benefit during the period.

Profit for the period

As a result of the factors set out above, the Group's profit increased by 52.3% to RMB40,905,000 for the first half of 2017 from RMB26,864,000 for the first half of 2016. The Group's net profit margin increased from 1.7% in the first half of 2016 to 2.2% in the same period of 2017.

Profit attributable to equity shareholders of the Company

For the first half of 2017, profit attributable to equity shareholders of the Company was RMB39,290,000 (1H2016: RMB25,713,000), representing an increase of 52.8%.

Trade and bills receivable

The net trade and bills receivable increased from RMB1,577,383,000 as at 31 December 2016 to RMB1,834,798,000 as at 30 June 2017, which was mainly due to an increase in sales in the first half of 2017. The provision for doubtful debts of RMB40,521,000 (2016: RMB37,310,000) accounted for 2.6% (2016: 2.7%) of the trade and bills receivables.

Liquidity and Financial Resources

As at 30 June 2017, the Group's current assets mainly included cash and cash equivalents of RMB294,745,000, inventories of RMB1,999,433,000, trade and other receivables of RMB1,834,798,000, time deposits of RMB449,506,000 and pledged deposits of RMB201,381,000. The Group's current assets remained relatively stable at RMB4,782,008,000 compared to RMB4,558,884,000 as at 31 December 2016.

As at 30 June 2017, interest-bearing borrowings of the Group were RMB2,990,252,000 (31 December 2016: RMB2,888,912,000), RMB2,573,364,000 (31 December 2016: RMB2,678,912,000) of which were repayable within one year and RMB416,888,000 (31 December 2016: RMB210,000,000) of which were repayable over one year. The Group's net gearing ratio (calculated based on the total outstanding interest-bearing debt less pledged deposits, time deposits and cash and cash equivalents and divided by the total equity) was 48.9%, compared to 43.5% as at 31 December 2016.

As at 30 June 2017, borrowings of RMB2,053,900,000 (31 December 2016: RMB2,033,050,000) were in RMB, USD90,923,000 (31 December 2016: USD89,216,000) were in USD and EUR41,345,000 (31 December 2016: EUR34,752,000) were in EUR. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.60% to 5.22% (31 December 2016: 0.70% to 5.75%). The Group did not enter into any interest rate swaps to hedge itself against risks associated with interest rates changes. Net cash used in operating activities during the period was RMB95,531,000 (31 December 2016: RMB494,768,000 generated from operating activities).

Capital Expenditures and Capital Commitments

For the first half of 2017, the Group's net decrease in fixed assets amounted to RMB32,817,000 (1H2016: RMB3,556,000 net increase). Compared to the capital expenditures undertaken in relation to production plant for thin steel plate and research centre in the first half of 2016, the Group initiated fewer projects and therefore incurred less capital expenditures in the first half of 2017. As at 30 June 2017, capital commitments were RMB183,451,000 (31 December 2016: RMB209,198,000), of which RMB41,210,000 (31 December 2016: RMB56,921,000) was contracted for and RMB142,241,000 (31 December 2016: RMB152,277,000) was authorised but not contracted for. The majority of capital commitments related to the acquisition and enhancement of production equipment.

Foreign Exchange Exposure

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (69.2% (31 December 2016: 67.9%)). 30.8% (31 December 2016: 32.1%) of the total sales and operating profit were 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 more timely basis to minimise any financial impact from exchange rate exposure.

Pledge of Assets

As at 30 June 2017, the Group pledged certain bank deposits amounting to approximately RMB201,381,000 (31 December 2016: RMB180,180,000) and certain trade receivables amounting to approximately RMB149,037,000 (31 December 2016: RMB147,748,000). Details are set out in the notes to the financial statements.

Employee's Remuneration and Training

As at 30 June 2017, the Group employed 3,052 employees (31 December 2016: 3,423). The remuneration of employees for the first half of 2017 is RMB116,711,000 (1H2016: RMB110,440,000). 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 2017 (31 December 2016: No material contingent liabilities).

No Material Change

Save as disclosed in this report, information in relation to the Group's performance in the Reporting Period for matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not changed materially from the information disclosed in the 2016 annual report of the Company.

Report of the Directors

Report of the Directors

The board (the "Board") of directors (the "Directors") of the Company is pleased to submit the interim report together with the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017 which have been reviewed by the Company's auditor, KPMG, and the audit committee of the Company (the "Audit Committee").

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 2016).

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2017, the interests, long positions or short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

(a) Interests in the Company

Director's name	Interests	Ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun [1 and 2]	Interests of controlled corporations	787,390,000 (L)	35.47
	Beneficial owner	1,600,000 (L)	0.07
	Beneficial owner[3]	2,700,000 (L)	0.12
			35.66
Mr. Wu Suojun	Beneficial owner[3]	1,667,000 (L)	0.08
Mr. Yan Ronghua	Beneficial owner[3]	800,000 (L)	0.04
Mr. Jiang Guangqing	Beneficial owner[3]	600,000 (L)	0.03

Notes:

As at 30 June 2017,

(1) Tiangong Holdings Company Limited ("THCL") held 743,458,000 ordinary shares. THCL was held as to 89.02% and 10.98% by Zhu Xiaokun and Yu Yumei, the spouse of Zhu Xiaokun, respectively. Zhu Xiaokun is deemed to be interested in the 743,458,000 shares held by THCL.

(2) Silver Power (HK) Limited, which was wholly-owned by Zhu Xiaokun, held 43,932,000 ordinary shares.

(3) Options (physically settled) granted under Share Option Scheme of the Company.

(L) Represents long position.

(b) Interests in the shares of associated corporation

Name of Director	Name of associated corporation	Nature of interests and capacity	Total number of Shares	Approximate percentage of interests (%)
Mr. Zhu Xiaokun	THCL	Beneficial owner	44,511 (L)	89.02%
		Spousal interest (1)	5,489 (L)	10.98%
Mr. Zhu Xiaokun	Jiangsu Tiangong Technology Company Limited ("TG Tech")	Beneficial owner (2)	10,000,000 (L)	2.47%

Notes:

(1) Ms. Yu Yumei, the spouse of Mr. Zhu Xiaokun held 5,489 shares in THCL. Mr. Zhu Xiaokun is deemed to be interested in such 5,489 shares in THCL.

(2) Mr. Zhu Xiaokun acquired the shares in TG Tech in previous placing.

(L) Represents long position.

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

Substantial Shareholders' Interests

As at 30 June 2017, save for the Company's Directors or chief executives as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company and its associated corporations which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

(a) Interests in the Company

Substantial shareholders' name	Nature of interests and capacity	Ordinary shares	Approximate attributable interest (%)
Yu Yumei (1)	Spousal interest (2)	791,690,000 (L)	35.66
THCL (1)	Beneficial owner	743,458,000 (L)	33.49
Guo Guangchang	Interests of controlled corporations (3)	136,290,000 (L)	6.14
南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*)	Interests of controlled corporations (4)	136,290,000 (L)	6.14
南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*)	Interests of controlled corporations (5)	136,290,000 (L)	6.14

Notes:

(L) Represents long position.

(1) THCL is owned as to 89.02% by Mr. Zhu Xiaokun and 10.98% by his spouse, Madam Yu Yumei.

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

(3) Guo Guangchang was deemed to hold a total of 136,290,000 ordinary shares (long position) of the Company by virtue of his control over numerous corporations:

(a) Guo Guangchang controlled 64.45% of Fosun International Holdings Ltd.

(b) Fosun International Holdings Ltd. controlled 100% of 復星控股有限公司 (Fosun Holdings Limited).

(c) 復星控股有限公司 (Fosun Holdings Limited) controlled 71.55% of 復星國際有限公司 (Fosun International Ltd.).

(d) 復星國際有限公司 (Fosun International Ltd.) controlled 100% of 上海復星高科技（集團）有限公司 (Shanghai Fosun High Mainland China Technology (Group) Co., Ltd.).

(e) 上海復星高科技（集團）有限公司 (Shanghai Fosun High Mainland China Technology (Group) Co., Ltd.) controlled 100% of 上海復星產業投資有限公司 (Shanghai Fosun Industrial Investment Co., Ltd.) and 30% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).

(f) 上海復星產業投資有限公司 (Shanghai Fosun Industrial Investment Co., Ltd.) controlled 100% of 上海復星工業技術發展有限公司 (Shanghai Fosun Industrial Technology Development Co., Ltd.) and 20% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).

(g) 上海復星工業技術發展有限公司 (Shanghai Fosun Industrial Technology Development Co., Ltd.) controlled 10% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).

(h) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) controlled 100% of 南京鋼鐵聯合有限公司 (Nanjing Iron & Steel United Co., Ltd.) and 45.31% of 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.).

(i) 南京鋼鐵聯合有限公司 (Nanjing Iron & Steel United Co., Ltd.) controlled 2.88% of 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.).

(j) 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) controlled 100% of 南京南鋼產業發展有限公司 (Nanjing Nangang Industry Development Co., Ltd.*).

(k) 南京南鋼產業發展有限公司 (Nanjing Nangang Industry Development Co., Ltd.*) controlled 100% of 香港金騰國際有限公司 (Hong Kong Jinteng International Company Limited).

(l) 香港金騰國際有限公司 (Hong Kong Jinteng International Company Limited) controlled 100% of Jin Tou Capital Limited which directly held 136,290,000 ordinary shares in the Company.

(4) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) was deemed to hold a total of 136,290,000 ordinary shares (long position) of the Company by virtue of its control over numerous corporations:

(a) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) controlled 34.87% of 南京鋼鐵創業投資有限公司 (Nanjing Iron & Steel Business Investment Co., Ltd.*).

(b) 南京鋼鐵創業投資有限公司 (Nanjing Iron & Steel Business Investment Co., Ltd.*) controlled 51% of 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*).

(c) 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*) controlled 40% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).

(d) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) in turn controlled various corporations set out in note 3(h) to (l) above.

(5) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*) was deemed to hold a total of 136,290,000 ordinary shares (long position) of the Company by virtue of its control over numerous corporations:

(a) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*) controlled 49% of 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*).

(b) 南京鋼鐵集團有限公司 (Nanjing Iron & Steel Group Co., Ltd.*) controlled 40% of 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.).

(c) 南京南鋼鋼鐵聯合有限公司 (Nanjing Nangang Iron & Steel United Co., Ltd.) in turn controlled various corporations set out in note 3(h) to (l) above.

* For identification purpose only

(b) Interests in the shares of associated corporation

Substantial shareholder's name	Name of associated corporation	Nature of interests and capacity	Total number of shares	Approximate percentage of interests (%)
Ms. Yu Yumei	THCL	Beneficial owner Spousal interest (1)	5,489 (L) 44,511 (L)	10.98 89.02
Ms. Yu Yumei	TG Tech	Spousal interest (1)	10,000,000 (L)	2.47
Guo Guangchang	TG Tech	Interests of controlled corporations (2)	72,697,000 (L)	17.95
南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*)	TG Tech	Interests of controlled corporations (3)	72,697,000 (L)	17.95
南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*)	TG Tech	Interests of controlled corporations (4)	72,697,000 (L)	17.95

Notes:

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

(2) Guo Guangchang was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of his control over numerous corporations. For information in relation to the controlled corporations, please refer to note 3 of the paragraph headed "Substantial Shareholders' Interests – (a) Interests in the Company".

(3) 南京鋼鐵集團有限公司工會委員會 (Labour Union Committee of Nanjing Iron & Steel Group Co., Ltd.*) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations. For information in relation to the controlled corporations, please refer to note 4 of the paragraph headed "Substantial Shareholders' Interests – (a) Interests in the Company".

(4) 南京新工投資集團有限責任公司 (Nanjing Xingong Investment Group Co., Ltd.*) was deemed to hold a total of 72,697,000 shares (long position) in TG Tech directly held by 南京鋼鐵股份有限公司 (Nanjing Iron & Steel Co., Ltd.) by virtue of its control over numerous corporations. For information in relation to the controlled corporations, please refer to note 5 of the paragraph headed "Substantial Shareholders' Interests – (a) Interests in the Company".

* For identification purpose only

Share Options Scheme

The Company adopted a share option scheme (the "2007 Share Option Scheme") on 7 July 2007. On 28 January 2011, options entitled holders to subscribe for a total of 4,970,000 shares of USD0.01 each were granted to certain of the Directors and employees of the Company in respect of their services to the Group. These share options had vested on 1 July 2012 and have an initial exercise price of HKD5.10 per share of USD0.01 each and an exercise period ranging from 1 July 2012 to 30 June 2016. The closing price of the Company's shares at the date of grant was HKD5.10 per share of USD0.01 each. Due to the implementation of share subdivision on 23 May 2011, the maximum aggregate number of shares which may be issued under the 2007 Share Option Scheme was adjusted to 19,880,000 shares of USD0.0025 each at an exercise price of HKD1.275 per share. All the unexercised share options for 3,080,000 shares lapsed on 1 July 2016.

On 17 January 2014, options entitled holders to subscribe for a total of 9,057,000 shares of USD0.0025 each were granted to and accepted by employees of the Company in respect of their services to the Group. Among the total 9,057,000 shares options, 55,000 shares options were not vested and the remaining share options were vested on 1 June 2014 and have an initial exercise price of HKD2.50 per share of USD0.0025 each and an exercise period ranging from 1 June 2014 to 31 May 2016. The closing price of the Company's shares at the date of grant was HKD2.48 per share of USD0.0025 each. All the unexercised share options for 9,002,000 shares lapsed on 1 June 2016.

On 18 August 2014, options entitled holders to subscribe for a total of 22,147,000 shares of USD0.0025 each were granted to and accepted by certain Directors and employees of the Company in respect of their services to the Group. These share options were vested on 19 August 2014 and have an initial exercise price of HKD1.78 per share of USD0.0025 each and an exercise period ranging from 19 August 2014 to 18 August 2019. The closing price of the Company's shares at the date of grant was HKD1.78 per share of USD0.0025 each.

Subsequently on 22 July 2016, options entitled holders to subscribe for a total of 18,970,000 shares of USD0.0025 each were granted to and accepted by certain Directors and employees of the Company in respect of their services to the Group. These share options were vested on 1 January 2017 and have an initial exercise price of HKD0.60 per share of USD0.0025 each and an exercise period ranging from 1 January 2017 to 31 December 2017. The closing price of the Company's shares at the date of grant was HKD0.56 per share of USD0.0025 each.

The 2007 Share Option Scheme expired on 6 July 2017. A total of 16,200,000 shares have been allotted and issued pursuant to the 2007 Share Option Scheme, 34,764,000 options granted under the 2007 Share Option Scheme were cancelled and lapsed and 41,117,000 options granted under the 2007 Share Option Scheme remained outstanding and exercisable until 31 December 2017 according to the terms of grant, notwithstanding the expiry of the 2007 Share Option Scheme.

New share option scheme of the Company (for details, please refer to the circular of the Company dated 25 April 2017) and the expiry of the 2007 Share Option Scheme were approved by the Company in the Annual General Meeting held on 26 May 2017.

	No. of options outstanding at the beginning of the year	No. of options granted during the interim period	No. of shares acquired on exercise of options during the interim period	No. of shares cancelled/ lapsed/ forfeited during the interim period	No. of options outstanding at the end of the interim period	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*	Market value per share on exercise of options*
Directors										
Mr. Zhu Xiaokun	500,000	–	–	–	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	2,200,000	–	–	–	2,200,000	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	–
Mr. Wu Suojun	867,000	–	–	–	867,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	800,000	–	–	–	800,000	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	–
Mr. Yan Ronghua	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	500,000	–	–	–	500,000	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	–
Mr. Jiang Guangqing	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
	300,000	–	–	–	300,000	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	–
Employees	20,180,000	–	–	–	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Employees	15,170,000	–	–	–	15,170,000	22 July 2016	01 January 2017 to 31 December 2017	HKD0.60	HKD0.56	–
	41,117,000	–	–	–	41,117,000					

The options granted to the Directors are registered under the names of the Directors who are also the beneficial owners.

* being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

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

Purchase, Sales or Redemption of Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities.

Corporate Governance

During the six months ended 30 June 2017, the Company has, so far where applicable, complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

Audit Committee

The Audit Committee comprises three independent non-executive Directors. The Audit Committee held a meeting on 14 August 2017 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 2017 interim report and interim 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 Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, all directors of the Company have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

Facilities Agreement imposing a Specific Performance Obligation on the Controlling Shareholder of the Company

On 8 June 2017, the Company (as borrower) and a bank entered into a 3-year facilities agreement (the "Facilities Agreement") of up to an aggregate amount of US$38,300,000 (the "Facilities"). The Facilities are unsecured and interest bearing with any outstanding amounts to be repaid in full on the date falling three years from the date of the Facilities Agreement. Pursuant to the Facilities Agreement, Mr. Zhu Xiaokun and Ms. Yu Yumei, the controlling shareholders of the Company, undertake to maintain beneficiary interests (direct and indirect) of no less than 30% shareholdings of the Company as long as the Company has facility at the bank (the "Specific Performance Obligation"). As at the date of this report, Mr. Zhu Xiaokun and Ms. Yu Yumei beneficially own approximately 35.66% of the issued share capital of the Company. Breach of the Specific Performance Obligation may lead to the bank declaring the commitments to be cancelled and/or declaring all outstanding amounts together with interest accrued and all other sums payable by the Company to be immediately due and payable.

By order of the Board

15 August 2017

TO THE BOARD OF DIRECTORS OF
TIANGONG INTERNATIONAL COMPANY LIMITED
For the six months ended 30 June 2017
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 18 to 40 which comprises the consolidated statement of financial position of Tiangong International Company Limited as at 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

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

15 August 2017

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 (unaudited)

	Note	Six months ended 30 June 2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Revenue	3	**1,877,005**	1,568,234
Cost of sales		**(1,662,936)**	(1,381,307)
Gross profit		**214,069**	186,927
Other income	4	**6,308**	7,325
Distribution expenses		**(42,255)**	(28,829)
Administrative expenses		**(63,429)**	(67,363)
Other expenses	5	**(9,805)**	(16,424)
Profit from operations		**104,888**	81,636
Finance income		**2,664**	5,533
Finance expenses		**(59,102)**	(59,807)
Net finance costs	6(a)	**(56,438)**	(54,274)
Share of (losses)/profits of associates		**(1,628)**	3,513
Share of (losses)/profits of joint ventures		**(720)**	2,361
Profit before income tax	6	**46,102**	33,236
Income tax	7	**(5,197)**	(6,372)
Profit for the period		**40,905**	26,864
Attributable to:			
Equity shareholders of the Company		**39,290**	25,713
Non-controlling interests		**1,615**	1,151
Profit for the period		**40,905**	26,864
Earnings per share (RMB)	8		
Basic		**0.018**	0.012
Diluted		**0.018**	0.012

The notes on pages 25 to 40 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period	**40,905**	26,864
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
– financial statements of Hong Kong subsidiaries and overseas equity-accounted investees (net of nil tax)	**8,860**	72
Available-for-sale securities: net movement in the fair value reserve (net of tax of RMB510,000)	**(2,890)**	–
Other comprehensive income for the period	**5,970**	72
Total comprehensive income for the period	**46,875**	26,936
Attributable to:		
Equity shareholders of the Company	**45,260**	25,785
Non-controlling interests	**1,615**	1,151
Total comprehensive income for the period	**46,875**	26,936

The notes on pages 25 to 40 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2017 (unaudited)

	Note	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
Non-current assets			
Property, plant and equipment	9	**3,411,347**	3,444,164
Lease prepayments		**71,749**	72,624
Goodwill		**21,959**	21,959
Interest in associates		**50,067**	46,484
Interest in joint ventures		**25,216**	25,343
Other financial assets	10	**92,900**	96,300
Deferred tax assets		**34,065**	30,146
		3,707,303	3,737,020
Current assets			
Trading securities		**2,145**	–
Inventories	11	**1,999,433**	1,901,775
Trade and other receivables	12	**1,834,798**	1,577,383
Pledged deposits	13	**201,381**	180,180
Time deposits		**449,506**	640,000
Cash and cash equivalents	14	**294,745**	259,546
		4,782,008	4,558,884
Current liabilities			
Interest-bearing borrowings	15	**2,573,364**	2,678,912
Trade and other payables	16	**1,215,459**	1,145,129
Current taxation		**–**	1,560
Deferred income		**6,080**	5,840
		3,794,903	3,831,441
Net current assets		**987,105**	727,443
Total assets less current liabilities		**4,694,408**	4,464,463
Non-current liabilities			
Interest-bearing borrowings	15	**416,888**	210,000
Deferred income		**40,363**	43,876
Deferred tax liabilities		**57,048**	55,153
		514,299	309,029
Net assets		**4,180,109**	4,155,434

The notes on pages 25 to 40 form part of this interim financial report.

	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
Capital and reserves		
Share capital	**40,167**	40,167
Reserves	**4,000,608**	3,977,548
Total equity attributable to equity shareholders of the Company	**4,040,775**	4,017,715
Non-controlling interests	**139,334**	137,719
Total equity	**4,180,109**	4,155,434

Approved and authorised for issue by the board of directors on 15 August 2017.

Zhu Xiao Kun
Director

Yan Rong Hua
Director

The notes on pages 25 to 40 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 (unaudited)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		40,167	1,590,760	492	74,367	91,925	(34,259)	–	530,335	1,582,500	–	3,876,287
Changes in equity for the six months ended 30 June 2016												
Profit for the period		–	–	–	–	–	–	–	–	25,713	1,151	26,864
Other comprehensive income		–	–	–	–	–	72	–	–	–	–	72
Total comprehensive income		–	–	–	–	–	72	–	–	25,713	1,151	26,936
Dividends approved in respect of the previous year	17	–	–	–	–	–	–	–	–	(14,431)	–	(14,431)
Partial disposal to non-controlling interests		–	–	–	–	–	–	–	–	–	49,320	49,320
Forfeiture of share options		–	–	–	(3,772)	–	–	–	–	3,772	–	–
Balance at 30 June 2016 and 1 July 2016		40,167	1,590,760	492	70,595	91,925	(34,187)	–	530,335	1,597,554	50,471	3,938,112
Changes in equity for the six months ended 31 December 2016												
Profit for the period		–	–	–	–	–	–	–	–	84,858	4,274	89,132
Other comprehensive income		–	–	–	–	–	(27,714)	73,355	–	–	–	45,641
Total comprehensive income		–	–	–	–	–	(27,714)	73,355	–	84,858	4,274	134,773
Dividends approved in respect of the previous year		–	–	–	–	–	–	–	–	(481)	–	(481)
Transfer to reserve		–	–	–	–	–	–	–	14,203	(14,203)	–	–
Issuance of share options		–	–	–	2,253	–	–	–	–	–	–	2,253
Partial disposal to non-controlling interests		–	–	–	–	–	–	–	–	(2,197)	82,974	80,777
Balance at 31 December 2016		40,167	1,590,760	492	72,848	91,925	(61,901)	73,355	544,538	1,665,531	137,719	4,155,434

The notes on pages 25 to 40 form part of this interim financial report.

	Note	Attributable to equity shareholders of the Company									Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000		
Balance at 1 January 2017		40,167	1,590,760	492	72,848	91,925	(61,901)	73,355	544,538	1,665,531	137,719	4,155,434
Changes in equity for the six months ended 30 June 2017												
Profit for the period		-	-	-	-	-	-	-	-	39,290	1,615	40,905
Other comprehensive income		-	-	-	-	-	8,860	(2,890)	-	-	-	5,970
Total comprehensive income		-	-	-	-	-	8,860	(2,890)	-	39,290	1,615	46,875
Dividends approved in respect of the previous year	17	-	-	-	-	-	-	-	-	(22,200)	-	(22,200)
Balance at 30 June 2017		40,167	1,590,760	492	72,848	91,925	(53,041)	70,465	544,538	1,682,621	139,334	4,180,109

The notes on pages 25 to 40 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**(83,734)**	133,046
Tax paid	**(11,797)**	(21,248)
Net cash (used in)/generated from operating activities	**(95,531)**	111,798
Investing activities		
Payment for the purchase of property, plant and equipment	**(87,672)**	(132,048)
Other cash flows arising from/(used in) investing activities	**168,310**	(25,274)
Net cash generated from/(used in) investing activities	**80,638**	(157,322)
Financing activities		
Proceeds from new interest-bearing borrowings	**2,738,320**	2,164,574
Repayment of interest-bearing borrowings	**(2,636,980)**	(2,084,234)
Interest paid	**(52,384)**	(69,311)
Capital contribution from a non-controlling shareholder	**–**	49,600
Net cash generated from financing activities	**48,956**	60,629
Net increase in cash and cash equivalents	**34,063**	15,105
Cash and cash equivalents at 1 January	**259,546**	323,486
Effect of foreign exchange rates changes	**1,136**	(428)
Cash and cash equivalents at 30 June	**294,745**	338,163

The notes on pages 25 to 40 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

1. Basis of preparation

This interim financial report of 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 15 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 audited financial statements. Details of any changes in accounting policies are set out in Note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 17.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements for the financial year ended 31 December 2016. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2016. 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.

2. Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these development have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

3. Revenue and segment reporting

Revenue represents mainly the sales value of high alloy steel (including die steel ("DS") and high speed steel ("HSS")), cutting tools, titanium alloy and trading of goods after eliminating intercompany transactions.

The Group has 5 reportable segments, as described below, which are the Group's product divisions. For each of the product divisions, the Chairman (the chief operating decision maker) reviews internal management reports on at least a monthly basis. No operating segments have been aggregated to form the following reportable segments. The following summary describes the operations in each of the Group's reportable segments:

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

(a) 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 bases:

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

3. Revenue and segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

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 period ended 30 June 2017 and 2016 is set out below.

	Six months ended 30 June 2017					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Revenue from external customers	786,331	306,052	232,079	84,101	468,442	1,877,005
Inter-segment revenue	–	76,831	–	–	–	76,831
Reportable segment revenue	786,331	382,883	232,079	84,101	468,442	1,953,836
Reportable segment profit (adjusted EBIT)	89,778	46,104	26,240	9,020	672	171,814

	As at 30 June 2017					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	3,269,432	2,119,840	1,396,342	450,499	10	7,236,123
Reportable segment liabilities	632,891	370,936	191,689	40,538	–	1,236,054

3. Revenue and segment reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

	Six months ended 30 June 2016					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Revenue from external customers	534,209	206,838	237,519	98,416	491,252	1,568,234
Inter-segment revenue	–	76,174	–	–	–	76,174
Reportable segment revenue	534,209	283,012	237,519	98,416	491,252	1,644,408
Reportable segment profit (adjusted EBIT)	79,300	31,542	33,973	8,031	936	153,782

	As at 31 December 2016					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000
Reportable segment assets	3,040,930	2,136,121	1,328,101	436,820	11	6,941,983
Reportable segment liabilities	591,689	342,342	178,869	45,026	–	1,157,926

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

	Six months ended 30 June	
Revenue	**2017 RMB'000**	2016 RMB'000
Reportable segment revenue	**1,953,836**	1,644,408
Elimination of inter-segment revenue	**(76,831)**	(76,174)
Consolidated revenue	**1,877,005**	1,568,234

	Six months ended 30 June	
Profit	**2017 RMB'000**	2016 RMB'000
Reportable segment profit	**171,814**	153,782
Net finance costs	**(56,438)**	(54,274)
Share of (losses)/profits of associates	**(1,628)**	3,513
Share of (losses)/profits of joint ventures	**(720)**	2,361
Other unallocated head office and corporate expenses	**(66,926)**	(72,146)
Consolidated profit before income tax	**46,102**	33,236

3. Revenue and segment reporting (Continued)

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

Assets	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Reportable segment assets	**7,236,123**	6,941,983
Trading securities	**2,145**	–
Interest in associates	**50,067**	46,484
Interest in joint ventures	**25,216**	25,343
Other financial assets	**92,900**	96,300
Deferred tax assets	**34,065**	30,146
Pledged deposits	**201,381**	180,180
Time deposits	**449,506**	640,000
Cash and cash equivalents	**294,745**	259,546
Current taxation	**3,061**	–
Other unallocated head office and corporate assets	**100,102**	75,922
Consolidated total assets	**8,489,311**	8,295,904

Liabilities	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Reportable segment liabilities	**1,236,054**	1,157,926
Interest-bearing borrowings	**2,990,252**	2,888,912
Current taxation	**–**	1,560
Deferred tax liabilities	**57,048**	55,153
Other unallocated head office and corporate liabilities	**25,848**	36,919
Consolidated total liabilities	**4,309,202**	4,140,470

3. Revenue and segment reporting (Continued)

(c) 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 (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	
	2017	2016
Revenue	**RMB'000**	RMB'000
The PRC	**1,299,502**	1,108,314
North America	**201,219**	179,587
Europe	**247,906**	149,735
Asia (other than the PRC)	**97,083**	110,458
Others	**31,295**	20,140
Total	**1,877,005**	1,568,234

For the period ended 30 June 2017, the Group's customer base is diversified and includes one customer (2016: one customer) with whom transactions exceeded 10% but was less than 30% of the Group's revenue.

4. Other income

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Government grants	**3,615**	6,524
Sales of scrap materials	**256**	275
Dividend income from listed securities	**1,780**	–
Reversal of impairment loss for doubtful debts	**–**	21
Net gain on disposal of property, plant and equipment	**190**	–
Others	**467**	505
	6,308	7,325

Subsidiaries of the Company located in the PRC received unconditional grants amounting to RMB342,000 (six months ended 30 June 2016: RMB4,256,000) from the local government in Danyang to reward their contribution to the local economy and encourage their technological innovation during the six months ended 30 June 2017. The Group also recognised amortisation of government grants related to assets of RMB3,273,000 (six months ended 30 June 2016: RMB2,268,000) during the six months ended 30 June 2017.

5. Other expenses

	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Provision of impairment losses for doubtful trade receivables	**3,211**	–
Net foreign exchange loss	**6,370**	15,722
Net loss on disposal of property, plant and equipment	**–**	60
Others	**224**	642
	9,805	16,424

6. Profit before income tax

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

(a) Net finance costs

	Note	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Interest income		**(2,664)**	(5,533)
Finance income		**(2,664)**	(5,533)
Interest on bank loans		**71,594**	66,275
Less: interest expense capitalised into property, plant and equipment under construction	9	**(12,492)**	(6,468)
Finance expenses		**59,102**	59,807
Net finance costs		**56,438**	54,274

(b) Other items

	Note	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Cost of inventories*		**1,662,936**	1,377,160
Depreciation		**108,243**	103,474
Amortisation of lease prepayments		**874**	874
Provision for write-down of inventories	11	**9,436**	924

* Cost of inventories includes RMB108,906,000 (six months ended 30 June 2016: RMB100,457,000) 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.

7. Income tax

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax – corporation tax	**6,711**	13,594
Provision for Hong Kong profits tax	**–**	983
	6,711	14,577
Deferred tax		
Reversal of temporary differences	**(1,514)**	(8,205)
	5,197	6,372

(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. Jiangsu Tiangong Tools Company Limited, Tiangong Aihe Company Limited and TG Tech are subject to a preferential income tax rate of 15% in 2017 available to enterprises which qualify as a High and New Technology Enterprise (2016: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2016: 25%).

(c) Hong Kong profits tax has been provided for Tiangong Development Hong Kong Company Limited at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for the period ended 30 June 2017.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB39,290,000 (six months ended 30 June 2016: RMB25,713,000) and the weighted average of 2,220,080,000 ordinary shares in issue during the interim period (six months ended 30 June 2016: 2,220,080,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB39,290,000 (six months ended 30 June 2016: RMB25,713,000) and the weighted average number of ordinary shares of 2,225,934,849 (including effect of equity settled share-based transactions) (six months ended 30 June 2016: 2,220,080,000) for the six months ended 30 June 2017 after taking into account the potential dilutive effect of share options.

9. Property, plant and equipment

During the six months ended 30 June 2017, the Group acquired items of plant and machinery at a cost of RMB750,077,000 (six months ended 30 June 2016: RMB113,649,000), excluding capitalised borrowing costs of RMB12,492,000 (six months ended 30 June 2016: RMB6,468,000). There were no material disposals of property, plants and equipment for the periods presented.

10. Other financial assets

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Available-for-sale securities			
– listed in the PRC	(i)	**92,900**	96,300
– unlisted	(ii)	**–**	–
		92,900	96,300

(i) Fair value measurement of available-for-sale securities is disclosed in note 18. Available-for-sale securities of RMB92,900,000 (2016: RMB96,300,000) have been pledged to a bank as security for the Group to borrow bank loans as set out in note 15.

(ii) On 22 November 2016, TG Tools entered into an investment agreement with Citma Metals Co., Ltd. to incorporate a new corporation in Mexico, namely Aceros T&C. Aceros T&C is principally engaged in the sale of special steel related products. Equity interest held by TG Tools in Aceros T&C is 15%. Up to the date of this report, TG Tools has not contributed any capital into Aceros T&C.

11. Inventories

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	**46,836**	35,044
Work in progress	**1,031,467**	909,531
Finished goods	**921,130**	957,200
	1,999,433	1,901,775

During the six months ended 30 June 2017, the Group recognised a write-down of RMB9,436,000 (six months ended 30 June 2016: a write-down of RMB924,000) against those inventories with net realisable value lower than carrying value. The write-down is included in cost of sales in the consolidated statement of profit or loss and other comprehensive income.

12. Trade and other receivables

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade receivables	**1,043,181**	988,696
Bills receivable	**586,020**	416,596
Less: provision for doubtful debts	**(40,521)**	(37,310)
Net trade and bills receivable	**1,588,680**	1,367,982
Prepayments	**134,473**	125,342
Current taxation	**3,061**	–
Non-trade receivables	**108,584**	84,059
Net prepayments and non-trade receivables	**246,118**	209,401
	1,834,798	1,577,383

Trade receivables of RMB149,037,000 (2016: RMB147,748,000) have been pledged to a bank as security for the Group's bank loans as disclosed in note 15.

12. Trade and other receivables (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	**1,353,368**	1,118,311
4 to 6 months	**137,560**	144,452
7 to 12 months	**73,565**	74,003
1 to 2 years	**14,469**	17,319
Over 2 years	**9,718**	13,897
	1,588,680	1,367,982

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Neither past due nor impaired	**1,075,511**	1,123,111
Less than 3 months past due	**21,126**	23,421
3 to 6 months past due	**8,815**	2,471
Over 6 months past due	**6,641**	15,506
Amounts past due but not impaired	**36,582**	41,398
	1,112,093	1,164,509

Receivables that were neither past due nor impaired relate to a wide range of customers with no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good payment track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and taking into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group's customers are normally granted with a maximum credit period of 180 days depending on the creditworthiness of individual customers. Normally, the Group does not obtain collateral from customers.

13. Pledged deposits

Bank deposits of RMB201,381,000 (2016: RMB180,180,000) have been pledged to banks as security for bank acceptance bills and other banking facilities of the Group. The pledge in respect of the bank deposits will be released upon the settlement of the relevant bills payable by the Group and the termination of related banking facilities.

14. Cash and cash equivalents

All the balances of cash and cash equivalents as at 30 June 2017 are cash at bank and in hand.

15. Interest-bearing borrowings

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current			
Secured bank loans	(i)	280,922	263,288
Unsecured bank loans	(ii)	1,541,016	1,753,755
Current portion of non-current unsecured bank loans	(iii)	751,426	661,869
		2,573,364	2,678,912
Non-current			
Secured bank loans		46,400	60,000
Unsecured bank loans	(iii)	1,121,914	811,869
Less: Current portion of non-current unsecured bank loans	(iii)	(751,426)	(661,869)
		416,888	210,000
		2,990,252	2,888,912

(i) The current bank loans were secured by certain trade receivables, equity securities, and sales contracts at interest rates ranging from 0.60% to 4.30% per annum (2016: 0.70% to 3.60%) and were repayable within one year.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 1.50% to 5.22% (2016: 1.00% to 5.22%) and were repayable within one year.

(iii) Non-current unsecured bank loans carried interest at annual rates ranging from 2.34% to 4.75% (2016: 2.34% to 5.75%).

15. Interest-bearing borrowings (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**751,426**	661,869
Over 1 year but within 2 years	**416,888**	210,000
	1,168,314	871,869

As at 30 June 2017, the Group's banking facility with one bank is subject to the fulfilment of a covenant relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. As at 30 June 2017, none of the covenants relating to drawn down facilities had been breached (2016: None).

16. Trade and other payables

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	**649,469**	472,360
4 to 6 months	**329,507**	405,858
7 to 12 months	**18,837**	34,522
1 to 2 years	**17,880**	16,182
Over 2 years	**32,021**	28,832
Total trade creditors and bills payable	**1,047,714**	957,754
Non-trade payables and accrued expenses	**167,745**	187,375
	1,215,459	1,145,129

17. Capital, reserves and dividends

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Dividend in respect of the previous financial year, approved but not paid during the interim period, of RMB0.0100 per share (six months ended 30 June 2016: RMB0.0065 per share)	**22,200**	14,431

The Directors do not recommend payment of an interim dividend for the interim period (no interim dividend for the six months period ended 30 June 2016).

18. Fair value measurement of financial instruments

(a) Financial assets measured at fair value

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

Available-for-sale securities (listed) as mentioned in note 10 are measured at fair value determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. As all significant inputs are observable, the instrument is included in Level 2 of the fair value hierarchy.

Trading securities traded in active markets are measured based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level 1 of the fair value hierarchy. Instruments mainly included in Level 1 comprise securities traded on exchanges.

(b) Financial assets and liabilities carried at other than fair value

Except for available-for-sale securities (listed) and trading securities mentioned in note 18(a), all financial instruments measured at other than fair value are carried at cost or amortised cost that are not materially different from their fair values as at 30 June 2017 and 2016 due to either the short maturities of these financial instruments or variable market interest rates for long-term bank borrowings.

19. Related party transactions

The Group has transactions with a company controlled by a controlling shareholder ("controlling shareholder's company"), a company controlled by a close member of a controlling shareholder's family ("controlling shareholder's family member's company"), associates and joint ventures. In addition to the related party information disclosed elsewhere in the notes to the consolidated financial statements, the Group entered into the following related party transactions for the periods presented:

(a) Significant related party transactions-recurring

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Lease expenses to:		
Controlling shareholder's company	**500**	288
Sales of goods to:		
Joint ventures	**111,342**	149,718
Associates	**176,250**	21,066
Controlling shareholder's family member's company	**3,640**	–
Freight expenses to:		
Associates	**317**	1,100
Lending to:		
Joint ventures	**–**	2,670
Purchase of goods from:		
Controlling shareholder's family member's company	**1,444**	–

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

19. Related party transactions (Continued)

(b) Amounts due from related parties

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Joint ventures	**199,280**	178,977
Associates	**62,262**	19,049
Controlling shareholder's family member's company	**764**	–
	262,306	198,026

(c) Amounts due to related parties

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Associates	**5,401**	11,015
Controlling shareholder's family member's company	**21**	–
	5,422	11,015

20. Commitments

(a) Capital commitments outstanding and not provided for in the interim financial report

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	**41,210**	56,921
Authorised but not contracted for	**142,241**	152,277
	183,451	209,198

(b) Operating leases commitments

At the date of the consolidated statement of financial position, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**1,036**	1,468
After 1 year but within 5 years	**1,503**	–
	2,539	1,468