



Tian Shan Development (Holding) Limited
天山發展(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2118

Interim
Report
2017



CORPORATE INFORMATION

Directors

Executive Directors

Mr. WU Zhen Shan (*Chairman*)

Mr. WU Zhen Ling

Mr. ZHANG Zhen Hai

Independent Non-Executive Directors

Mr. TIAN Chong Hou

Mr. WANG Ping

Mr. CHEUNG Ying Kwan

Company Secretary

Mr. CHEUNG Siu Yiu, *FCPA, FCCA, FCA*

Authorised Representatives

Mr. WU Zhen Shan

Mr. CHEUNG Siu Yiu

Audit Committee

Mr. CHEUNG Ying Kwan (*Chairman*)

Mr. TIAN Chong Hou

Mr. WANG Ping

Remuneration Committee

Mr. TIAN Chong Hou (*Chairman*)

Mr. WU Zhen Shan

Mr. WU Zhen Ling

Mr. WANG Ping

Mr. CHEUNG Ying Kwan

Nomination Committee

Mr. WU Zhen Shan (*Chairman*)

Mr. WU Zhen Ling

Mr. TIAN Chong Hou

Mr. WANG Ping

Mr. CHEUNG Ying Kwan

Company Website

www.tian-shan.com

Head Office and Principal Place of Business in China

No. 109 Tianshan Avenue
Shijiazhuang Hi-Tech Industry
Development Zone
Shijiazhuang, Hebei Province
China

Principal Place of Business in Hong Kong

Suites 1205-7, 12/F,
Everbright Centre
108 Gloucester Road
Wanchai
Hong Kong

Auditors

KPMG

Certified Public Accountants

Registered Office in the Cayman Islands

Clifton House, 75 Fort Street
PO Box 1350, Grand Cayman KY1-1108
Cayman Islands

Principal Share Register and Transfer Office in the Cayman Islands

Estera Trust (Cayman) Limited
Clifton House, 75 Fort Street
PO Box 1350, Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Register and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

The board of directors (the “Board”) of Tian Shan Development (Holding) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016. The unaudited interim financial report set out on pages 16 to 40 has been reviewed by the audit committee of the Company.

FINANCIAL HIGHLIGHTS


	For the six months ended 30 June		Change %
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	
Turnover	829,686	894,763	(7.3)
Gross profit	284,522	228,490	24.5
Profit for the period	61,265	47,448	29.1
Contracted sales during the period	3,176,220	2,070,286	53.4
Basic earnings per share (RMB cents)	6.09	4.72	29.0
Interim dividend per share (HK cents)	5.00	Nil	N/A

BUSINESS REVIEW AND PROSPECTS

Property development and investment

As at 30 June 2017, the Group had numerous property projects under development primarily located in Shijiazhuang, Tianjin, Ningxia and Shandong.

The total contracted sales amount for the six months ended 30 June 2017 was RMB3,176.2 million (six months ended 30 June 2016: RMB2,070.3 million) which increased by 53.4% as compared over the same period last year. The contracted sales was primarily contributed by the sale and pre-sale of property projects, namely *Tian Shan World Gate*, *Tian Shan Jiu Feng*, *Tian Shan Ambassador House*, *Tianjin Tian Shan Wonderful Waterside View (Phases I and II)*, *Tian Shan Galaxy Plaza*, and *Yuanshi Waterside View*.




With the strong increase in cash received from contracted sales, during the six months ended 30 June 2017, the Group has replenished its land bank by acquiring certain new residential and commercial land parcels through auction/bidding/tender in Shijiazhuang in aggregate consideration of RMB2,752.6 million or estimated salable gross floor area of approximately 890,000 sq.m. which are intended to be developed for sale in two to three years' time.

In addition, during the period the Group further acquired a residential land parcel of salable gross floor area of approximately 143,000 sq.m. through acquiring the entire equity interest in Xingtai Xiangyu Real Estate Development Limited ("Xiangyu Real Estate") at a consideration of RMB81.1 million. The acquisition was completed in May 2017. Further details of the acquisition are set out in the Company's announcement dated 10 May 2017.

In March 2014, Tian Shan Real Estate Development Group Limited ("Tian Shan Real Estate"), a wholly-owned subsidiary of the Company, has entered into a co-operation agreement (the "Co-operation Agreement") with Tangshan Construction Investment Limited ("Tangshan Investment") and Hebei Infrastructure Property Development Limited ("Hebei Investment") to develop a commercial and residential property project located in Tangshan city by (i) capital injection of RMB35 million (equivalent to 70% equity interest of the enlarged registered capital) to Tangshan Infrastructure Property Development Limited ("Tangshan Real Estate"), and (ii) committed to grant loans in aggregate of approximately RMB821.9 million. The Group has paid RMB200 million deposit to Tangshan Real Estate in 2014. Further details of the Co-operation Agreement were set out in the Company's circular dated 27 June 2014.

Notwithstanding the Group's performance and effort to perform, Tangshan Investment and Hebei Investment failed to perform their respective obligations and arrangements under the Co-operation Agreement. On 26 June 2017, after seeking legal advices, Tian Shan Real Estate and Hebei Yuanzhi Real Estate Development Company Limited, both are indirect wholly-owned subsidiaries of the Company (collectively, the "Plaintiffs"), had jointly initiated legal proceedings at the High People's Court of Hebei Province in the PRC (the "Court") against Tangshan Investment, Hebei Investment, and Tangshan Real Estate (collectively, the "Defendants") seeking for the following orders from the Court:

1. an order to terminate the co-operation relationship between the Defendants and the Plaintiffs;


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2. an order that the investment fund in the amount of approximately RMB234.7 million and the payment of interest that would have accrued on the paid deposit of RMB200.0 million (at a rate of 7.61% per annum) in the amount of approximately RMB48.9 million (to be calculated upto the actual repayment date) be returned to the Plaintiffs;
 3. an order that the gain from the co-operation in the amount of approximately RMB240.7 million and the brand usage fee in the amount of approximately RMB26.6 million be paid to the Plaintiffs; and
 4. an order that costs of the legal proceedings be paid by the Defendants.

The Board considers that the legal proceedings and termination of the Co-operation Agreement shall have no material adverse impact on the existing business operation and financial position of the Group. Further details of the legal proceedings were set out in the Company's announcement dated 26 June 2017. The Company will make further announcement(s) of any material development on the foregoing matter as and when appropriate.

The Group is committed to continue its track record in the development of quality residential and industrial property projects in Bohai Economic Rim and in the coming future, will explore the potential of property development in other provinces in the PRC.

FINANCIAL REVIEW

The Group's turnover slightly decreased by approximately 7.3% to approximately RMB829.7 million from RMB894.8 million as compared with the same period of last year. The decrease in turnover during the period was mainly due to comparatively lesser completed properties were delivered to the customers. During the period, the Group's turnover is principally derived from the sales and delivery of residential property projects, namely *Tianjin Tian Shan Wonderful Waterside View (Phases I and II)*, *Tian Shan Jiu Feng*, *Yuanshi Waterside View*, *Tianshan Auspicious Lake* and *Tian Shan Tinglan Residence*.



The cost of sales decreased by approximately 18.2% to approximately RMB545.2 million from RMB666.3 million as compared with the six month period ended 30 June 2016. The decrease was mainly commensurate with the decrease in the turnover during the six months ended 30 June 2017.

As a result of the foregoing, the amount of the gross profit increased to approximately RMB284.5 million from RMB228.5 million in the corresponding period of last year. The gross profit margin for the current period was increased to approximately 34.3% as compared with 25.5% for the same period of the preceding year. The increase in gross profit margin was mainly due to higher average selling prices in 2017 compared with same period last year, and in the first half year of 2016, the Group delivered certain initial batches residential properties of *Tian Shan Jiu Feng*, which were sold at comparatively lower prices to attract customers, as one of the Group's selling strategies.

The Group's selling and marketing expenses increased significantly by approximately 45.1% to RMB126.2 million for the current period from RMB87.0 million for the same period of last year. The increase was primarily due to the increase in advertising and promotion expenses for new property projects in Yinchuan and *Tian Shan World Gate*.

The Group's administrative expenses increased significantly by approximately 84.7% to RMB138.0 million from RMB74.7 million. The increase was primarily due to the increase in number of offices and employees were employed in different locations for the operations of new property projects in Yinchuan and *Tian Shan World Gate*, etc.

During the period, the Group recorded a net income tax credit of RMB35.5 million for the corporate income tax and land appreciation tax in the PRC after considering the estimated effective corporate income tax and land appreciation tax for the period and the reversal of prior periods provisions upon tax clearance with the PRC tax bureaus.

As a result of the above, the Group recorded a net profit of approximately RMB61.3 million for the current period as compared with the net profit of approximately RMB47.4 million for the same period of last year.

Financial Resources, Liquidity and Gearing Ratio

The Group financed its property projects primarily through the shareholders equity, bank and other borrowings, promissory note and sales/pre-sales proceeds from completed properties/properties under development.

As at 30 June 2017, the gearing ratio (calculated as net debt divided by adjusted capital) is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Total bank and other borrowings	5,338,690	4,739,773
Promissory note	173,812	178,367
Bond payables	374,825	316,244
Less: Cash and cash equivalents	(2,159,375)	(2,185,846)
Short-term investments	(110,000)	(110,000)
Net debt	3,617,952	2,938,538
Total equity	2,227,978	2,172,909
Less: Proposed dividend/dividend declared subsequent to the balance sheet date	(43,249)	(17,903)
Adjusted capital	2,184,729	2,155,006
Adjusted net debt-to-capital ratio	1.66	1.36

The gearing ratio increased from 1.36 to 1.66 was primarily due to the net effect of the increase in bank and other loans of approximately RMB598.9 million, the decrease of promissory note of RMB4.6 million, the increase in bond payables of RMB58.6 million and the increase in total equity by, among others, the profit earned during the year of RMB61.3 million and the decrease in cash and cash equivalents by RMB26.5 million.



Current Assets and Liabilities

As at 30 June 2017, the Group had total current assets of approximately RMB18,444.7 million (31 December 2016: RMB16,528.7 million), comprising mainly inventories, trade and other receivables, short-term investments, and restricted cash and cash and cash equivalents.

As at 30 June 2017, the Group had total current liabilities of approximately RMB12,437.4 million (31 December 2016: RMB12,263.1 million), comprising mainly bank and other borrowings, trade and other payables and taxation payable.

As at 30 June 2017, the current ratio (calculated as the total current assets divided by the total current liabilities) was 1.48 (31 December 2016: 1.35).

Employees' Remuneration and Benefits

As at 30 June 2017, the Group employed a total of 3,104 employees (31 December 2016: 2,458 employees). The compensation package of the employees includes basic salary and bonus which depends on the employee's actual achievement against target. In general, the Group offered competitive salary package, social insurance, pension scheme to its employees based on the current market salary levels. A share option scheme has also been adopted for employees of the Group.

Foreign Exchange and Currency Risks

The Group's businesses are principally conducted in Renminbi, therefore, the Group was not exposed to significant foreign currency exchange risks as of 30 June 2017 and the Group did not employ any financial instruments for hedging purposes.

In addition, Renminbi is not a freely convertible currency and the PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. Changes in the foreign exchange control system may prevent the Group from satisfying sufficient foreign currency demands of the Group.

Capital Expenditure

During the six months ended 30 June 2017, the Group incurred capital expenditure in the amount of approximately RMB2,079.2 million comprising primarily the Group's addition in property, plant and equipment, and the land and development costs of the Group's property projects.



Charge on Assets

As at 30 June 2017, the Group had restricted cash of RMB467.8 million (31 December 2016: RMB997.2 million) deposited with certain banks as guarantee deposits against certain bank and other loans, bills payable, and mortgage loan facilities granted by the banks to purchasers of the Group's properties. In addition, the Group's inventories, property, plant and equipment, and investment properties in aggregate of approximately RMB3,332.1 million (31 December 2016: RMB3,109.6 million) were secured against the bank and other loans of the Group.

As at 30 June 2017, the Group had also charged certain of its investment properties in aggregate of approximately RMB20.0 million (31 December 2016: Nil) in favour of a bank for their grant of banking facilities of RMB27.0 million to a related party.

Contingent Liabilities

Except for the guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties of RMB2,882.3 million (31 December 2016: RMB2,882.3 million) and the guarantee provided to banks in respect of banking facilities granted to a related party in aggregate of RMB27.0 million (31 December 2016: Nil), the Group had no material contingent liability as at 30 June 2017.

Substantial Acquisitions and Disposals

Save as the acquisition of Xiangyu Real Estate mentioned above, the Group had not participated in any substantial acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2017.

Significant Investments

As at 30 June 2017, for short-term treasury management, the Group had invested RMB110.0 million in debt securities (wealth management products) issued by certain banks in the PRC with guaranteed principal amounts plus fixed or variable returns. Other than these, the Group did not hold any significant investments and there were no intended plans for material investments which were expected to be carried out in the coming year.



SPECIFIC PERFORMANCE OBLIGATIONS ON THE CONTROLLING SHAREHOLDERS UNDER RULE 13.18 OF THE LISTING RULES

On 22 February 2016, the Company together with Neway Enterprises Limited (“Neway Enterprises”) and Mr. WU Zhen Shan (“Mr. WU”) entered into a facility agreement (the “Facility Agreement”) with an independent third party (the “Lender”) whereby the Lender agreed to provide to the Company a Hong Kong dollar 2-year term (with mutual consent by the Company and the Lender may extend for a further two years) loan facility of up to an aggregate principal amount of HK\$350 million (the “Loan Facility”). On 26 October 2016, the Company together with Neway Enterprises and Mr. WU entered into an amended and restated facility agreement (the “Revised Facility Agreement”) with the Lender whereby, among others, the Loan Facility was amended to an aggregate principal amount of HK\$550 million (the “Amended Loan Facility”).

The Revised Facility Agreement requires, among others, Neway Enterprises and Mr. WU, undertakes and covenants with the Company and the Lender that so long as any principal amount of the Amended Loan Facility and/or other amount due thereunder remain outstanding, it shall not, and shall procure that none of its associates shall offer, sell, allot, contract to sell any shares of the Company (the “Specific Performance Obligation”).

It will be an event of default if Specific Performance Obligation is breached and in such case, the Lender may require that the Amended Loan Facility be matured immediately at a price equivalent to the sum of (i) the outstanding principal amount of the Amended Loan Facility; (ii) all unpaid interest on the outstanding principal amount; and (iii) any unpaid default interest accrued.

Further details of the Facility Agreement, the Revised Facility Agreement and the Specific Performance Obligation are set out in the Company’s announcements dated 22 February 2016 and 26 October 2016.



INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK\$0.00 cents per ordinary share for the six months ended 30 June 2017 (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of conduct regarding directors' securities transactions.

The Company confirms that, having made specific enquiry of all the directors of the Company (the "Directors"), the Directors have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2017.

CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2017.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Tian Chong Hou, Mr. Wang Ping and Mr. Cheung Ying Kwan. The principal duties of the audit committee include the review of the Company's financial reporting procedures, risk management and internal controls systems and financial results of the Group. The unaudited condensed consolidated interim financial report has been reviewed by the audit committee.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Mr. Wu Zhen He retired as Executive Director of the Company on 26 May 2017. Mr. Wu Zhen He also ceased to be shareholder and director of Neway Enterprises, the controlling shareholder of the Company as to 74.57% of the issued share capital of the Company on 10 April 2017 and 6 June 2017, respectively.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and short positions of the Directors and/or chief executives of the Company in any shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO, or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

1. Interests in the Company

(a) Shares

Name of Director of the Company	Nature of interest	No. of shares	Percentage of issued share capital of the Company
WU Zhen Shan	Interest of a controlled corporation	750,000,000 (note 1) Long Position	74.57%
WU Zhen Ling	Interest of a controlled corporation	750,000,000 (note 1) Long Position	74.57%
ZHANG Zhen Hai	Interest of a controlled corporation	750,000,000 (note 1) Long Position	74.57%

Note 1: The shares of the Company (the “Shares”) are beneficially held by Newway Enterprises Limited (“Newway Enterprises”). Newway Enterprises is a company incorporated in the British Virgin Islands and is owned as to 25% by Mr. WU Zhen Shan, 25% by Mr. WU Zhen Ling, 25% by Mr. ZHANG Zhen Hai and 25% by Mr. WU Xiaozhi and all of them being directors of Newway Enterprises. Since these three Directors exercise or control the exercise of entire voting right at general meetings of Newway Enterprises, each of them is deemed to be interested in the Shares held by Newway Enterprises by virtue of Part XV of the SFO.

(b) *Options*

Name of Director	Nature of Interest	Number of shares subject to options granted	Approximate percentage of shareholding	Date of grant	Exercise period	Exercise price per share (HK\$)
WU Zhen Shan	Interest of spouse	191,000 (note 1)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70
WU Zhen Ling	Interest of spouse	191,000 (note 2)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70
ZHANG Zhen Hai	Interest of spouse	191,000 (note 3)	0.02%	16.06.2010	16.01.2011 to 15.06.2020	0.70

Notes:

1. The options are granted to XU Lan Ying, the spouse of WU Zhen Shan, under the pre-IPO share option scheme adopted by the Company on 16 June 2010 (the “Pre-IPO Share Option Scheme”).
2. The options are granted to FAN Yi Mei, the spouse of WU Zhen Ling, under the Pre-IPO Share Option Scheme.
3. The options are granted to WU Lan Zhi, the spouse of ZHANG Zhen Hai, under the Pre-IPO Share Option Scheme.

2. Interest in associated corporations

Name of Director	Name of associated corporation	Number of shares	Percentage of shareholding
WU Zhen Shan	Neway Enterprises	one	25%
WU Zhen Ling	Neway Enterprises	one	25%
ZHANG Zhen Hai	Neway Enterprises	one	25%

Save as disclosed above, as at 30 June 2017, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of shareholder of the Company	Nature of interest	Number of shares held	Percentage of the Company's issued share capital
Neway Enterprises	Beneficial	750,000,000	74.57%

Save as disclosed above, as at 30 June 2017, no person, other than the directors of the Company, whose interests are set out in the section “Interests and short positions of the Director and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations” above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

On 16 June 2010, the Company adopted the Pre-IPO Share Option Scheme and on the same date, options to subscribe for an aggregate of 6,000,000 shares of the Company have been granted. The options can be exercised for a period of 10 years from the date of the grant.

The following table discloses movements in the Company’s options granted under the Pre-IPO Share Option Scheme during the period:

Name or category of participant	At 1 January 2017	Grant during the period	Exercised during the period	Forfeited during the period	At 30 June 2017	Date of grant	Exercise period of the share options (note f)	Exercise price of share options (HK\$ per share)
Connected persons								
WU Lan Zhi (note a)	191,000	–	–	–	191,000	16.06.2010	16.01.2011 to 15.06.2020	0.70
XU Lan Ying (note b)	191,000	–	–	–	191,000	16.06.2010	16.01.2011 to 15.06.2020	0.70
FAN Yi Mei (note c)	191,000	–	–	–	191,000	16.06.2010	16.01.2011 to 15.06.2020	0.70
WU Lan Ping (note d)	191,000	–	–	–	191,000	16.06.2010	16.01.2011 to 15.06.2020	0.70
	<u>764,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>764,000</u>			
Other employees and grantees								
In aggregate	<u>4,486,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,486,000</u>	<u>16.06.2010</u>	<u>16.01.2011 to 15.06.2020</u>	<u>0.70</u>
Total	<u>5,250,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>5,250,000</u>			



Notes:

- (a) WU Lan Zhi is the elder sister of WU Zhen Shan and WU Zhen Ling and the spouse of ZHANG Zhen Hai. The interest was also disclosed as an interest of ZHANG Zhen Hai in the section “Interests and short positions of the Directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations” above.
- (b) XU Lan Ying is the spouse of WU Zhen Shan. The interest was also disclosed as an interest of WU Zhen Shan in the section “Interests and short positions of the Directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations” above.
- (c) FAN Yi Mei is the spouse of WU Zhen Ling. The interest was also disclosed as an interest of WU Zhen Ling in the section “Interests and short positions of the Directors and the chief executives in shares, underlying shares and debentures of the Company and its associated corporations” above.
- (d) WU Lan Ping is the younger sister of WU Zhen Shan and WU Zhen Ling.
- (e) Each grantee is entitled to exercise up to 10% of the share options granted to him/her each year since the date of grant. Options which become exercisable in the relevant year are not exercised can be exercised in any of the subsequent years in whole or in part.

SHARE OPTION SCHEME

A share option scheme (the “Share Option Scheme”) was conditionally approved by resolutions in writing of the then sole shareholder of the Company on 16 June 2010, which became effective on 15 July 2010. During the period under review, no share options were granted or exercised and no share options were forfeited by the Company under the Share Option Scheme. There were no outstanding share options under the Share Option Scheme as at 30 June 2017.

By order of the Board

Tian Shan Development (Holding) Limited

Wu Zhen Shan

Chairman

Hong Kong
30 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
	Note	2017 RMB'000	2016 RMB'000
Revenue	4	829,686	894,763
Cost of sales		(545,164)	(666,273)
Gross profit		284,522	228,490
Other income		8,607	1,838
Selling and marketing expenses		(126,235)	(87,007)
Administrative expenses		(138,002)	(74,715)
Profit from operations		28,892	68,606
Finance income		9,860	13,202
Finance expenses		(12,956)	(31,906)
Net finance expenses	5(a)	(3,096)	(18,704)
Profit before taxation	5	25,796	49,902
Income tax	6	35,469	(2,454)
Profit for the period		61,265	47,448
Earnings per share (RMB cents)	8		
Basic		6.09	4.72
Diluted		6.07	4.70

The notes on pages 24 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Profit for the period	61,265	47,448
Other comprehensive income/(loss) for the period:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign subsidiaries	11,611	(2,380)
Total comprehensive income for the period	72,876	45,068

The notes on pages 24 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED BALANCE SHEET

at 30 June 2017 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment and lease land	9	672,564	641,166
Investment properties	10	565,697	565,697
Deferred tax assets		43,991	43,991
		1,282,252	1,250,854
Current assets			
Inventories	11	11,489,699	10,007,133
Short-term investments	14	110,000	110,000
Trade and other receivables	12	3,685,867	3,034,394
Prepaid tax		531,999	194,079
Restricted cash	13	467,755	997,206
Cash and cash equivalents		2,159,375	2,185,846
		18,444,695	16,528,658
Current liabilities			
Bank loans – secured	15	82,219	826,434
Other loans – secured	16	873,945	1,198,242
Trade and other payables	17	11,336,673	9,868,062
Bond payables		5,214	1,784
Taxation payable		139,362	368,550
		12,437,413	12,263,072
Net current assets		6,007,282	4,265,586
Total assets less current liabilities		7,289,534	5,516,440

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

at 30 June 2017 – unaudited

(Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current liabilities			
Bank loans – secured	15	3,665,180	1,584,589
Other loans – secured	16	717,346	1,130,508
Promissory notes		173,812	178,367
Bond payables		369,611	314,460
Deferred tax liabilities		135,607	135,607
		5,061,556	3,343,531
NET ASSETS			
		2,227,978	2,172,909
CAPITAL AND RESERVES			
Share capital		87,186	87,186
Reserves		2,140,792	2,085,723
TOTAL EQUITY			
		2,227,978	2,172,909

The notes on pages 24 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June 2017							
		Attributable to equity holders of the Group							
	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Other capital reserve RMB'000	PRC statutory reserve RMB'000	Share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017		87,186	152,663	(20,081)	110,070	298,357	3,889	1,540,825	2,172,909
Changes in equity for the six months ended 30 June 2017:									
Profit for the period		-	-	-	-	-	-	61,265	61,265
Other comprehensive income		-	-	11,611	-	-	-	-	11,611
Total comprehensive income for the period		-	-	11,611	-	-	-	61,265	72,876
Equity settled share-based payment		-	-	-	-	-	96	-	96
Dividends paid in respect of the previous year	7	-	(17,903)	-	-	-	-	-	(17,903)
At 30 June 2017		87,186	134,760	(8,470)	110,070	298,357	3,985	1,602,090	2,227,978

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

Six months ended 30 June 2016										
Attributable to equity holders of the Group										
Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Other capital reserve RMB'000	Warrant reserve RMB'000	PRC statutory reserve RMB'000	Share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000	
At 1 January 2016	87,186	167,901	24,264	110,070	8,513	262,150	3,697	1,449,087	2,112,868	
Changes in equity for the six months ended 30 June 2016:										
Profit for the period	-	-	-	-	-	-	-	47,448	47,448	
Other comprehensive loss	-	-	(2,380)	-	-	-	-	-	(2,380)	
Total comprehensive income for the period	-	-	(2,380)	-	-	-	-	47,448	45,068	
Warrants expired	-	-	-	-	(3,473)	-	-	3,473	-	
Equity settled share-based payment	-	-	-	-	-	-	143	-	143	
Dividends paid in respect of the previous year	7	(15,238)	-	-	-	-	-	-	(15,238)	
At 30 June 2016	87,186	152,663	21,884	110,070	5,040	262,150	3,840	1,500,008	2,142,841	

The notes on pages 24 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Operating activities		
Operating profit before working capital changes	49,254	87,000
Changes in working capital:		
Increase in inventories	(1,185,523)	(1,248,806)
Increase in trade and other receivables	(563,162)	(329,351)
Decrease in restricted cash	529,451	884,533
Increase/(decrease) in trade and other payables	1,275,462	(347,715)
Cash generated from/(used in) operations	105,482	(954,339)
PRC income tax paid	(531,639)	(119,582)
Net cash used in operating activities	(426,157)	(1,073,921)
Investing activities		
Payments for the purchase of property, plant and equipment	(51,485)	(59,087)
Net cash outflow from acquisition of a subsidiary	(36,180)	–
Proceeds from disposal of short-term investments	–	229,000
Other cash flows arising from investing activities	9,680	13,187
Net cash generated from/(used in) investing activities	(77,985)	183,100

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Continued)

for the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Financing activities		
Proceeds from new bank loans	2,173,760	1,138,600
Proceeds from new other loans	921,442	2,082,416
Proceeds from issue of bonds	58,581	38,746
Repayment of bank loans	(837,384)	(179,196)
Repayment of other loans	(1,649,910)	(1,444,920)
Redemption of promissory note	–	(129,568)
Capital contribution from limited partners	444,310	208,160
Repayment of capital contribution to limited partners	(333,041)	(220,370)
Interest paid	(280,249)	(190,981)
Dividend paid	(17,903)	(15,238)
Net cash generated from financing activities	479,606	1,287,649
Net increase/(decrease) in cash and cash equivalents	(24,536)	396,828
Cash and cash equivalents at 1 January	2,185,846	642,265
Effect of foreign exchange rate changes	(1,935)	(643)
Cash and cash equivalents at 30 June	2,159,375	1,038,450

The notes on pages 24 to 40 form part of this interim financial report.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

for the six months ended 30 June 2017

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

Tian Shan Development (Holding) Limited was incorporated in the Cayman Islands on 10 June 2005 and registered as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. Its principal place of business is at Room 1205-1207, 12/F, Everbright Centre, 108 Gloucester Road, Wanchai, Hong Kong and its registered office is at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Group is principally engaged in property development in the People's Republic of China (the "PRC").

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

This interim financial statements 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").

The interim financial statements has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements.

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

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 including in <i>Annual Improvements</i> <i>2014-2016 Cycle</i>	<i>Clarification of the Scope of the Standard</i>

The adoption of these amendments has had no significant financial effect on the financial position or performance of the Group.

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

3 SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on property development. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented in the interim financial report.

No geographic information is shown as the turnover and profit from operation of the Group is derived from activities in the PRC.

4 REVENUE

The principal activity of the Group is property development.

Revenue primarily represents income from sales of properties and rentals from investment properties. The amount of each significant category of revenue during the period is as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Income from sales of properties	804,706	873,454
Gross rental income	13,322	13,963
Other	11,658	7,346
	829,686	894,763

The Group's customer base is diversified and none of the customers of the Group with whom transactions have exceeded 10% of the Group's revenue.

5 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
(a) Net finance expenses		
Interest income	(9,680)	(13,187)
Exchange gain	(180)	(15)
Finance income	(9,860)	(13,202)
Interest expense and other borrowing costs	280,250	197,981
Less: interest and borrowing costs capitalised	(267,294)	(166,075)
Finance expenses	12,956	31,906
Net finance expenses	3,096	18,704
(b) Other items		
Depreciation and amortisation	20,087	18,236

6 INCOME TAX

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Current tax		
PRC Corporate Income Tax	12,188	18,714
Land Appreciation Tax	10,178	17,895
Overprovision in prior periods	(57,835)	(34,155)
	(35,469)	2,454

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

(ii) No Hong Kong Profits Tax has been provided for as the Group's Hong Kong operations do not give rise to estimated assessable profits during the period.

(iii) PRC Corporate Income Tax ("CIT")

The provision for CIT is based on the respective applicable rates on the estimated assessable profits of the Group's subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

The PRC subsidiaries of the Group were charged at 25% (2016: 25%) on estimated assessable profits for the period.

(iv) PRC Land Appreciation Tax ("LAT")

Pursuant to the requirements of the Provisional Regulations of the PRC on LAT effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

Certain subsidiaries of the Group were subject to LAT which is calculated based on 2% to 5% (2016: 2% to 5%) of their revenue in accordance with the authorised taxation method approved by respective local tax bureau.

7 DIVIDENDS

(a) Dividend payable to equity shareholders of the Company attributable to the interim period

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interim dividend declared after the interim period of HK5.00 cents (equivalent to RMB4.32 cents) per ordinary share (six months ended 30 June 2016: Nil)	43,249	Nil

Pursuant to a board resolution passed, after the balance sheet date, on 30 August 2017, an interim dividend of HK5.00 cents per ordinary share was declared. The interim dividend had not been recognised as a liability at the balance sheet date.

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK2.00 cents (equivalent to RMB1.78 cents) per ordinary share (six months ended 30 June 2016: HK1.80 cents (equivalent to RMB1.52 cents) per ordinary share)	17,903	15,238

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 RMB61,265,000 (profit for the six months ended 30 June 2016: RMB47,448,000) and the weighted average of 1,005,781,955 ordinary shares (six months ended 30 June 2016: 1,005,781,955 ordinary shares) in issue during the interim period.

(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 RMB61,265,000 (2016: RMB47,448,000) and the diluted weighted average number of ordinary shares of 1,008,650,327 shares (30 June 2016: 1,009,202,296 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Number of shares	
	2017	2016
Weighted average number of ordinary shares at 30 June	1,005,781,955	1,005,781,955
Effect of dilutive potential shares – share options	2,868,372	2,503,777
Effect of dilutive potential shares – warrants	–	916,564
Weighted average number of ordinary shares (diluted) at 30 June	1,008,650,327	1,009,202,296

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group's additions in property, plant and equipment amounted to RMB51,485,000 (six months ended 30 June 2016: RMB59,087,000).

The Group's property, plant and equipment with carrying value of RMB453,059,000 (31 December 2016: RMB502,544,000) were pledged as securities for the Group's bank and other loans (notes 15 and 16).

10 INVESTMENT PROPERTIES

The directors consider the carrying values of investment properties approximate to their respective fair values as at 30 June 2017.

Certain investment properties carried at fair value as at 30 June 2017 have been pledged to secure borrowings of the Group as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loans (note 15)	295,072	295,072
Other loans (note 16)	89,962	89,962
Fair value of investment properties pledged	385,034	385,034

11 INVENTORIES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Properties held for future development for sale	1,494,533	777,229
Properties under development for sale	7,614,457	6,530,318
Completed properties held for sale	2,375,381	2,693,088
Others	5,328	6,498
	11,489,699	10,007,133

Certain inventories carried at cost as at 30 June 2017 have been pledged to secure borrowings of the Group as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loans (note 15)	2,291,560	1,260,502
Other loans (note 16)	407,559	1,077,988
Carrying value of inventories pledged	2,699,119	2,338,490

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade receivables (note (a))	333,588	382,670
Other receivables	2,684,639	2,116,491
Loans and receivables	3,018,227	2,499,161
Deposits and prepayments	667,640	535,233
	3,685,867	3,034,394

- (a) The ageing analysis of trade receivables, all of which are neither individually nor collectively considered to be impaired, is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current or less than 1 month overdue	211,954	219,635
1 month to 3 months overdue	55,754	69,321
3 months to 1 year overdue	65,880	93,714
	333,588	382,670

Trade receivables are due within 0 – 30 days from date of billing.

The trade receivables represented the amount due from the purchasers of the Group's properties. In most cases, the Group receives full payments from properties purchasers by way of initial payment and their mortgage loans from banks. For industrial properties, the Group allows certain purchasers, after assessment of their credit information, to pay by instalments within a maximum period of two years.

13 RESTRICTED CASH

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Guarantee for mortgage loans (note (a))	230,537	133,976
Guarantee for bills payable	33,000	440,000
Guarantee for bank loans (note 15)	31,687	423,230
Guarantee for other loans (note 16)	172,531	–
	467,755	997,206

- (a) Deposits with certain banks were used as guarantee against the mortgage loan granted by the banks to the purchasers of the Group's properties.

14 SHORT-TERM INVESTMENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Investments in debt securities:		
– Redeemable on demand or with original maturity within three months	110,000	110,000

The debt securities represent wealth management products issued by financial institutions in the PRC with guaranteed principal amounts plus fixed or variable returns.

15 BANK LOANS – SECURED

- (a) At 30 June 2017, bank loans were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within one year or on demand	82,219	826,434
After one year but within two years	2,230,000	657,319
After two year but within five years	1,390,350	902,457
After five years	44,830	24,813
	3,665,180	1,584,589
	3,747,399	2,411,023

- (b) Certain bank loans of Group are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the bank loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2017, none of the covenants relating to bank loans had been breached (31 December 2016: Nil).

- (c) At 30 June 2017, carrying values of assets of the Group pledged for bank loans are analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Inventories	2,291,560	1,143,994
Properties, plant and equipment	107,770	116,508
Investment properties	89,962	295,072
Restricted cash	31,687	423,230
	2,520,979	1,978,804

16 OTHER LOANS – SECURED

- (a) At 30 June 2017, other loans were repayable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within one year or on demand	873,945	1,198,242
After one year but within two years	722,561	170,000
After two years but within five years	–	960,508
	1,596,506	2,328,750

- (b) At 30 June 2017, carrying values of assets of the Group pledged for other loans are analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Inventories	407,559	1,077,988
Investment properties	89,962	89,962
Property, plant and equipment	345,289	386,036
Restricted cash	172,531	–
	1,015,341	1,553,986

17 TRADE AND OTHER PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade payables (note (a))	506,116	260,390
Bills payable (note (a))	85,000	681,732
Receipts in advance	9,064,436	6,692,922
Other payables and accruals (note (b))	772,647	1,400,924
Amounts due to the ultimate holding company (note (c))	–	27,060
Amounts due to related parties (note (c))	17,038	24,867
Limited partners' interest (note (d))	891,436	780,167
	11,336,673	9,868,062

(a) An ageing analysis of trade payables and bills payable is set out as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 month	248,145	335,390
1 month to 3 months	256,630	449,048
Over 3 months but within 6 months	86,341	157,684
	591,116	942,122

(b) Included in other payables and accruals were accrued construction costs to Tianshan Construction amounted to RMB76,639,000 (31 December 2016: RMB197,091,000).

17 TRADE AND OTHER PAYABLES *(Continued)*

- (c) Amounts due to the ultimate holding company, Neway Enterprises Limited, and related parties are unsecured, interest-free and repayable on demand.
- (d) Limited partners' interest represented contributions from limited partners of partnerships over which the Group has control. Based on the partnership agreements, the Group has the contractual obligation to pay interest expenses to those limited partners at rates ranging from 11.5% to 15.0% per annum. The interest expenses are payable semi-annually in arrears. The contributions have been recognised initially at fair value and thereon are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

18 COMMITMENTS

Capital commitments outstanding at 30 June 2017 not provided for in the interim financial report are set out as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Authorised but not contracted for	7,916,855	6,487,642
Contracted but not provided for	3,811,192	3,461,179
	11,728,047	9,948,821

Capital commitments mainly related to land and development costs for the Group's properties under development.

19 CONTINGENT LIABILITIES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties (note (i))	2,882,337	2,882,337
Guarantee provided to banks in respect of banking facilities granted to a related party (note (ii))	27,000	–
	2,909,337	2,882,337

Notes:

- (i) The Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage facilities granted to the purchasers of the Group's properties by these banks. Pursuant to the terms of the guarantees, if there is default in the mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to banks. The Group's guarantee period commences from the dates of grants of the relevant mortgage loans and ends after the purchasers obtain the individual property ownership certificates of the properties purchased. The maximum amounts of guarantees given to banks for mortgage facilities granted to the purchasers of the Group's properties at 30 June 2017 are RMB2,882,337,000 (31 December 2016: RMB2,882,337,000).

The directors consider that it is not probable that the Group will suffer a loss under these guarantees as during the periods under guarantees, the Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Group to the banks. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors. The directors also consider that the market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Group in the event the purchasers default payments to the banks.

19 CONTINGENT LIABILITIES (Continued)

Note: (Continued)

- (ii) During the period, Tian Shan Real Estate also entered into a financial assistance agreement with Tianshan Construction, pursuant to which Tian Shan Real Estate agreed to provide a repayment guarantee and charge over its investment properties as set out in note 10, in favour of a bank to grant a short term bank loan of RMB27,000,000 (31 December 2016: Nil) to Tianshan Construction. Under the guarantee, Tian Shan Real Estate shall unconditionally guarantee to pay the indebtedness in total of RMB27,000,000 (31 December 2016: Nil), including: (i) the principal amount of the bank loan; (ii) any accrued interest thereon, penalty interests and compound interest; (iii) any default in payment and compensation and (iv) any costs and expenses for enforcing the guarantee.

The guarantee amounts represent the potential maximum exposure of the Group in accordance with the above guarantees.

20 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances and transactions disclosed elsewhere in the interim financial report, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Construction costs (note (i))	219,420	287,975
Rental expenses (note (ii))	193	193
Remuneration to key management personnel (note (iii))	3,992	4,298
Guarantee fee income (note (iv))	(473)	(571)

20 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

- (i) The Group received construction services rendered by Tianshan Construction, a company wholly-owned by the controlling shareholders of the Group. The directors consider that, except for a longer credit terms granted to the Group, the terms of such work were carried out on normal commercial terms and in the ordinary course of the Group's business.
- (ii) The amount represents rental expenses paid to Tianshan Construction for office and staff quarter occupied by the Group.
- (iii) Remuneration to key management personnel of RMB3,992,000 (six months ended 30 June 2016: RMB4,298,000) represents salaries and fringe benefits paid to the directors of the Company.
- (iv) The amount represents the guarantee fee received from Tianshan Construction in respect of properties for sales and investment properties of the Group secured against a banking facility and a bank loan to Tianshan Construction in the current period.
- (v) The Group received property management services in relation to the unsold properties from Shijiazhuang Tian Shan Property Management Company Limited, a company wholly-owned by the controlling shareholders of the Group at nil consideration.
- (vi) The Group was granted a license to use the trademarks "Tian Shan" pursuant to the relevant trademark licence agreement entered into between Hebei Tianshan Industrial Group Company Limited, a company wholly-owned by the controlling shareholders of the Group as licensor and Tian Shan Real Estate, a subsidiary of the Group as licensee at nil consideration.