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

2018

* *For identification purposes only*

MIX
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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
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
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
Agricultural Bank of China Limited
The Export-Import Bank of China
The Hongkong and Shanghai Banking Corporation Limited

Management Discussion and Analysis

BUSINESS AND MARKET REVIEW

	For the six months ended 30 June					
	2018		2017		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Die steel ("DS")	988,696	42.1	786,331	41.9	202,365	25.7
High speed steel ("HSS")	374,851	16.0	306,052	16.3	68,799	22.5
Cutting tools	270,512	11.5	232,079	12.4	38,433	16.6
Titanium alloy	106,700	4.5	84,101	4.5	22,599	26.9
Trading of goods	606,898	25.9	468,442	24.9	138,456	29.6
	2,347,657	100.0	1,877,005	100.0	470,652	25.1

Stimulated by the increased market demand and upward pricing trend in rare metals to which the Group uses as raw materials, sales volume and average selling price increased in all of the four segments of the Group.

With these positive impact of both sales volume and average selling prices, the Group recorded an overall increase of 25.1% in revenue. All the four segments achieved double digit growth in revenue during the period.

DS — accounted for approximately 42% of the Group's revenue in 1H2018

	For the six months ended 30 June					
	2018		2017		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	462,095	46.7	428,607	54.5	33,488	7.8
Export	526,601	53.3	357,724	45.5	168,877	47.2
	988,696	100.0	786,331	100.0	202,365	25.7

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 1H2018, revenue generated from the DS segment increased by approximately 25.7% to RMB988,696,000 (1H2017: RMB786,331,000). 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.

Both domestic and overseas demand was strong during the period, sales volume was driven up by 18.4% compared to the same period in 2017. Demand from the domestic market focused on middle-range products, while overseas demand was more concentrated on high-end products.

Accordingly, a significant increase of 47.2% to RMB526,601,000 (1H2017: RMB357,724,000) was recorded in export revenue. For domestic revenue, there was an increase of 7.8% to RMB462,095,000 (1H2017: RMB428,607,000).

Management Discussion and Analysis

HSS — accounted for approximately 16% of the Group's revenue in 1H2018

	For the six months ended 30 June					
	2018		2017		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	274,022	73.1	208,613	68.2	65,409	31.4
Export	100,829	26.9	97,439	31.8	3,390	3.5
	374,851	100.0	306,052	100.0	68,799	22.5

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

A recovery in domestic demand was experienced with an increase in domestic sales volume by 20%. The average selling price in the domestic market increased by 9% due to the transferrable upward pricing trend of raw materials. Overall, domestic revenue increased by 31.4% to RMB274,022,000 (1H2017: RMB208,613,000).

During the period, export revenue increased by 3.5% to RMB100,829,000 (1H2017: RMB97,439,000). Intense competition was encountered in overseas markets. The increase in export revenue was solely contributed by the increase in average selling price.

Cutting tools — accounted for approximately 12% of the Group's revenue in 1H2018

	For the six months ended 30 June					
	2018		2017		Change	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic	115,176	42.6	109,738	47.3	5,438	5.0
Export	155,336	57.4	122,341	52.7	32,995	27.0
	270,512	100.0	232,079	100.0	38,433	16.6

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

Management Discussion and Analysis

Competition with other small scale production companies in the domestic lower-end market was fierce. To prevent an unnecessary price war in the domestic lower-end market, the Group focused more on domestic middle-end market and overseas markets in the current period.

In the process of transformation and upgrade from domestic lower-end market to middle-end market, decline in sales volume was compensated by increase in average selling price. The growth in domestic revenue was alleviated at 5.0% to RMB115,176,000 (1H2017: RMB109,738,000).

For overseas markets, with the support of market demand and increased average selling price, export revenue increased by 27.0% to RMB155,336,000 (1H2017: RMB122,341,000).

Titanium alloy — accounted for approximately 4% of the Group's revenue in 1H2018

	For the six months ended 30 June					
	2018		2017		Change	
	RMB'000	**%**	RMB'000	%	RMB'000	%
Domestic	**106,513**	**99.8**	81,927	97.4	24,586	30.0
Export	**187**	**0.2**	2,174	2.6	(1,987)	(91.4)
	106,700	**100.0**	84,101	100.0	22,599	26.9

The 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.

The average selling price of titanium alloy remained relatively stable in the period. Domestic demand grew strong which improved the sales volume by 22%. Improved capacity utilisation was also achieved with the increased sales volume. In total, domestic revenue increased by 30% to RMB106,513,000 (1H2017: RMB81,927,000).

Regarding the overseas market, the development is still in good progress.

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.

Management Discussion and Analysis

OUTLOOK

Under the influence of the continued recovery of the manufacturing industry, the demand for the Group's products has gradually increased. While benefiting from the market recovery, the Group maintained its product innovation concept and prepared for future upgrades and expansion.

Investment in production capacity

On 26 March 2018, the Group commenced the construction of the first domestic powder metallurgy production line in China to fill the gap in domestic production of powder metallurgy materials for DS and HSS.

Powder metallurgy has been recognised by the industry as a green and sustainable manufacturing technology. Powder metallurgical materials are the most technologically advanced new materials in the world. Compared with traditional materials, powder metallurgical materials have the outstanding features of uniform composition, small segregation, easy to achieve higher quality alloying, good material toughness, geometrically stable and high isotropic performance, etc. Compared with the traditional production process, production of powder metallurgical materials address high energy consumption, low added value, environmental pollution and other problems in the traditional production process. Large-scale production of powder metallurgical materials is considered to be a symbol of "green development". It is an important step for the Group to explore the field of new materials and acquire worldwide cutting-edge technology and its high-end applications.

The Group will focus on three directions of development, namely, powdered steel ingots, near-net shape forming, and additive manufacturing (including low-carbon molds and 3D printing). The total investment in the production line will be RMB500 million. The construction will cover an area of 20,000 square meters. It will be composed of four major processes including milling, screening, wrapping and hot isostatic pressing. The investment in the first phase of the project is RMB320 million, which is expected to be completed and put into production with sales contribution after June 2019. By that time, it is expected to achieve an annual output of 2,000 tons of powder metallurgy products. The Group will start the construction of the second phase of the powder metallurgy project in 2020. It is expected to achieve a total annual output of 5,000 tons of powder metallurgy products ultimately.

Currently, China's powder metallurgical materials are still in a stage of small-scale experiments in research laboratories. All products depend on imports from France, Austria, the United States, Japan and other countries. In addition to satisfy the domestic industrial manufacturing demand for powder metallurgical materials, it also aims at the application of international powder metallurgical materials in order to enter the international market of new materials. The Group will realise the development from large-scale production to industrialisation, with a view to keeping pace with the production and processing of powder metallurgy in the world.

The Group invited two strategic investors, BAIC Group Industrial Investment Co., Ltd. and Jiangsu Shagang Group Co., Ltd. to subscribe for an aggregate of 300,000,000 shares. The placing of the 300,000,000 shares was completed on 11 May 2018 with the net proceeds of HK$477.8 million. The net price of each placing share was approximately HK$1.59. The market price of the placing shares was HK$1.78 per share as quoted on The Stock Exchange of Hong Kong Limited on 27 April 2018, the date when the terms of the placing agreement were fixed. The proceeds from the placing has been used as follows:

	Intended use of proceeds from the placing	Actual use of proceeds (as at 30 June 2018)	Proposed use of the remaining unutilised proceeds (as at 30 June 2018)
(i)	Construction of powder metallurgy production facilities	HK$6.7 million was used in acquiring hot isostatic pressing for the metal metallurgy production line	The Group plans to fully utilise the balance of HK$50.0 million for the construction of powder metallurgy production facilities
(ii)	Replenishment of Group's working capital	HK$384.2 million was used as working capital and for daily operation, including payment of electricity, staff salaries and procurement of raw materials	The Group plans to fully utilise the balance of HK$36.9 million as the working capital of the Group to meet the needs arising from its daily operations

Investment in distribution network

Apart from investing in a production facility, the Group also realises the importance of the sales network. On 29 January 2018, the Group entered into a subscription agreement with JM Digital Steel Inc., a company limited by shares quoted on The National Equities Exchange and Quotations System (stock code: 834429) ("JM Digital"), pursuant to which the Group agreed to subscribe for 6,670,000 new shares in JM Digital, representing approximately 4.42% of the enlarged registered capital of JM Digital, at RMB3.00 per share.

JM Digital is a company limited by shares established in the PRC which principally engages in online sales of steel; computer network system design; computer network technology consulting; information systems integration services; sales of metal materials and products, metal charge, building materials, machinery and equipment and parts, instrumentation, coke, refractories, electronic products, electrical equipment, hardware, rubber products, wood, chemical products and lubrication; sales, processing and recycling of waste materials; warehousing services; handling services; metallurgical technology and economic information consulting; import and export business of various types of goods and technology.

The Group is expected to benefit from use of e-commerce as a distribution channel for direct sales to end-consumers. This direct sales channel will also be beneficial to the Group's cash flow management.

Risk and prevention

As a material supplier to the global market, the Group is facing competition from other competitors as well as overseas government. The Group noted that the government of the United States imposed import tariffs on steel. Based on the fact that the export revenue of the die steel and high speed steel produced by the Group to the United States during the six months ended 30 June 2018 accounted for less than 2.8% of the Group's total revenue, the Group's financial position will not be significantly adversely affected by the imposed import tariffs. Since the sales network of the Group is diversified over the world, the Group can adjust its strategy on its export business by focusing on the most profitable regions and countries.

Conclusion

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

Last but not least, we re-affirm that maximisation 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 114.9% from RMB39,290,000 in the first half of 2017 to RMB84,441,000 in the first half of 2018. The increase was mainly attributable to (i) increase in sales volume of the Group's products due to increased market demand; and (ii) increase in the average selling price of the Group's products due to an upward pricing trend in rare metals to which the Group uses as raw materials during the period.

Revenue

Revenue of the Group for the first half of 2018 totalled RMB2,347,657,000, representing an increase of 25.1% when compared with RMB1,877,005,000 in the first half of 2017. The increase was mainly attributable to an increase in market demand and average selling price of the Group's products.

Cost of sales

The Group's cost of sales increased from RMB1,662,936,000 for the first half of 2017 to RMB2,038,311,000 for the first half of 2018, representing an increase of 22.6%. The increase was mainly due to an increase in sales during the period.

Gross margin

For the first half of 2018, gross margin was 13.2% (1H2017: 11.4%). Set out below is the gross margin for the five segments of the Group for the first half of 2017 and 2018:

	For the six months ended 30 June	
	2018	2017
DS	**17.8%**	15.0%
HSS	**20.4%**	17.2%
Cutting tools	**15.1%**	14.2%
Titanium alloy	**15.0%**	11.5%
Trading of goods	**0.03%**	0.14%

DS

The gross margin of DS increased from 15.0% in the first half of 2017 to 17.8% in the first half of 2018. During the period, the increase in the price of raw materials was passed on customers. Production utilisation was further enhanced by the increase in market demand. The Group obtained advantages in both pricing and cost savings and the gross margin was enhanced accordingly.

HSS

The market condition of HSS during the period was similar to that of DS. With improvements in both pricing and cost savings, the gross margin of HSS increased from 17.2% in the first half of 2017 to 20.4% in the first half of 2018.

Cutting tools

The domestic market for cutting tools is relatively mature and stable in recently years. Simulated by increased overseas demand, the gross margin of cutting tools achieved a slight improvement from 14.2% in the first half of 2017 to 15.1% in the first half of 2018.

Titanium alloy

The gross margin of titanium alloy increased from 11.5% in the first half of 2017 to 15.0% in the first half of 2018. The improvement in gross margin of titanium alloy was mainly attributable to the combined effect of increased raw material prices passed on customers and improved utilisation of production capacity.

Other income

The Group's other income increased from RMB6,308,000 in the first half of 2017 to RMB16,260,000 in the first half of 2018. The increase was mainly attributable to (i) an increase in government grants received from the PRC government; and (ii) foreign exchange gains resulting from Euro denominated liabilities.

Distribution expenses

The Group's distribution expenses were RMB50,901,000 (1H2017: RMB42,255,000), representing an increase of 20.5%. The increase was mainly due to an increase in sales volume and marketing and advertising expenses compared to the same period of 2017. For the first half of 2018, distribution expenses as a percentage of revenue was 2.2% (1H2017: 2.3%).

Administrative expenses

For the first half of 2018, the Group's administrative expenses increased to RMB72,560,000 (1H2017: RMB63,429,000). The increase was mainly attributable to the cost of the share option scheme announced in 2018 and an increase in average salaries and insurance expenses. For the first half of 2018, administrative expenses as a percentage of revenue was 3.1% (1H2017: 3.4%).

Net finance cost

The Group's net finance cost increased from RMB56,438,000 in the first half of 2017 to RMB63,531,000 in the first half of 2018, which was the result of increasing interest rates on loans denominated in foreign currencies and increased borrowings balance.

Income tax expense

The Group's income tax expense increased from RMB5,197,000 in the first half of 2017 to RMB19,093,000 in the first half of 2018. The increase was mainly due to a significant increase in the operating result during the period.

Profit for the period

As a result of the factors set out above, the Group's profit increased by 115.0% to RMB87,931,000 for the first half of 2018 from RMB40,905,000 for the first half of 2017. The Group's net profit margin increased from 2.2% in the first half of 2017 to 3.7% in the same period of 2018.

Profit attributable to equity shareholders of the Company

For the first half of 2018, profit attributable to equity shareholders of the Company was RMB84,441,000 (1H2017: RMB39,290,000), representing an increase of 114.9%.

Trade and bills receivable

Net trade and bills receivable increased from RMB1,708,023,000 as at 31 December 2017 to RMB1,800,529,000 as at 30 June 2018, which was mainly due to an increase in sales in the first half of 2018. The provision for doubtful debts of RMB112,329,000 (2017: RMB38,359,000) accounted for 6.2% (2017: 2.2%) of the trade and bills receivables.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group's current assets mainly included cash and cash equivalents of RMB405,140,000, inventories of RMB1,886,095,000, trade and other receivables of RMB2,230,829,000, time deposits of RMB772,150,000 and pledged deposits of RMB285,380,000. The Group's current assets were RMB5,581,744,000 compared to RMB4,902,213,000 as at 31 December 2017.

As at 30 June 2018, interest-bearing borrowings of the Group were RMB3,199,496,000 (31 December 2017: RMB2,993,292,000), RMB2,551,300,000 (31 December 2017: RMB2,170,279,000) of which were repayable within one year and RMB648,196,000 (31 December 2017: RMB823,013,000) 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 37.4%, compared to 47.2% as at 31 December 2017.

As at 30 June 2018, borrowings of RMB2,101,500,000 (31 December 2017: RMB2,145,300,000) were in RMB, USD67,706,000 (31 December 2017: USD59,579,000) were in USD and EUR54,907,000 (31 December 2017: EUR58,789,000) were in EUR. The majority of the borrowings of the Group were subject to interest payable at rates ranging from 0.90% to 5.50% (31 December 2017: 0.90% to 5.50%). Net cash generated from operating activities during the period was RMB206,287,000 (1H2017: RMB95,531,000 used in operating activities).

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the first half of 2018, the Group's net increase in fixed assets amounted to RMB16,393,000 (1H2017: RMB32,817,000 net decrease). The increase was mainly related to the construction of 40T medium frequency furnace, AOD furnace equipment and LFV furnace equipment. As at 30 June 2018, capital commitments were RMB408,860,000 (31 December 2017: RMB435,362,000), of which RMB101,557,000 (31 December 2017: RMB25,362,000) was contracted for and RMB307,303,000 (31 December 2017: RMB410,000,000) was authorised but not contracted for. The majority of capital commitments related to the powder metallurgy production line.

FOREIGN EXCHANGE EXPOSURE

The Group's revenue was denominated in RMB, USD and EUR, with RMB accounting for the largest portion (66.3% (1H2017: 69.2%)). 33.7% (1H2017: 30.8%) 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 timely basis to minimise any significant financial impact from exchange rate exposure.

PLEDGE OF ASSETS

As at 30 June 2018, the Group pledged certain bank deposits amounting to approximately RMB285,380,000 (31 December 2017: RMB241,380,000), certain trade receivables amounting to approximately RMB150,215,000 (31 December 2017: RMB123,200,000) and other financial assets amounting to RMB62,300,000 (31 December 2017: RMB73,500,000). Details are set out in the notes to the financial statements.

EMPLOYEE'S REMUNERATION AND TRAINING

As at 30 June 2018, the Group employed 2,827 employees (31 December 2017: 2,951). 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 2018 (31 December 2017: 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 2017 annual report of the Company.

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 2018 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 2017).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, 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	Number of ordinary shares held	Approximate attributable interests (%)
Mr. Zhu Xiaokun [1 and 2]	Interests of controlled corporations	817,190,000 (L)	32.18
	Beneficial owner	3,800,000 (L)	0.15
	Beneficial owner[3]	500,000 (L)	0.02
			32.35
Mr. Wu Suojun	Beneficial owner	800,000 (L)	0.03
	Beneficial owner[3]	2,467,000 (L)	0.10
Mr. Yan Ronghua	Beneficial owner	500,000 (L)	0.02
	Beneficial owner[3]	1,300,000 (L)	0.05
Mr. Jiang Guangqing	Beneficial owner	300,000 (L)	0.01
	Beneficial owner[3]	900,000 (L)	0.04
Mr. Lee Cheuk Yin, Dannis	Beneficial owner[3]	300,000 (L)	0.01
Mr. Gao Xiang	Beneficial owner[3]	300,000 (L)	0.01
Mr. Wang Xuesong	Beneficial owner[3]	300,000 (L)	0.01

Notes:

As at 30 June 2018,

(1) Tiangong Holdings Company Limited ("THCL") held 773,258,000 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 773,258,000 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 schemes 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	10,000,000 (L) (2)	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 Directors are aware, none of the 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 2018, 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	Number of ordinary shares	Approximate attributable interest (%)	Approximate attributable interest (%) (diluted)[5]
Yu Yumei[1]	Spousal interest[2]	821,490,000 (L)	32.35	30.07
THCL[1]	Beneficial owner	773,258,000 (L)	30.45	30.19
Zhu Zefeng	Interests of controlled corporations[3]	578,352,521 (L)	22.78	22.58
	Beneficial owner	1,500,000 (L)	0.06	0.06
			22.84	22.64
Niu Qiu Ping	Spousal interest[4]	579,852,521 (L)	22.84	22.64
Sky Greenfield Investment Limited	Beneficial owner[3]	578,352,521 (L)	22.78	22.58
北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd.*)	Interests of controlled corporations[6]	150,000,000 (L)	5.91	5.86
深圳市安鵬股權投資基金管理有限公司 (Shenzhen An Peng Equity Investment Fund Management Co., Ltd*)	Beneficial owner	150,000,000 (L)	5.91	5.86
諾安基金管理有限公司－諾安彩虹十五號資產管理計劃 (BOC-Lion Rainbow No.15 Fund*)	Trustee[7]	150,000,000 (L)	5.91	5.86
Jiangsu Shagang Group Co., Ltd	Interests of controlled corporations[8]	150,000,000 (L)	5.91	5.86
Shagang International (Hong Kong) Co., Limited	Beneficial owner	150,000,000 (L)	5.91	5.86

(L) Represents long position.

Notes:

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

(2) Ms. 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) Mr. Zhu Zefeng controlled 100% of Sky Greenfield Investment Limited.

(4) Ms. Niu Qiu Ping is the spouse of Mr. Zhu Zefeng and is deemed to be interested in the shares of the Company held by Mr. Zhu Zefeng.

(5) As at the date of 30 June 2018, 22,147,000 ordinary shares may be issued pursuant to the outstanding share options granted under the 2007 Share Option Scheme.

(6) 深圳市安鵬股權投資基金管理有限公司 Shenzhen An Peng Equity Investment Fund Management Co., Ltd ("An Peng Fund") is a wholly-owned company of 北京汽車集團產業投資有限公司 (Beijing Automobile Group Industrial Investment Co., Ltd*).

(7) 諾安基金管理有限公司－諾安彩虹十五號資產管理計劃 Lion Rainbow No. 15 Fund is a single client asset management scheme invested and established by An Peng Fund with 諾安基金管理有限公司 Lion Fund Management Co., Ltd. * as the asset manager.

(8) Shagang International (Hong Kong) Co., Limited, is a wholly-owned company of Jiangsu Shagang Group Co., Ltd.

* 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:

(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 71.70% 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.).

(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:

(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 2 (h) and (i) above.

(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:

(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 2(h) and (i) above.

* For identification purpose only

SHARE OPTIONS SCHEME

The Company adopted a share option scheme (the "2007 Share Option Scheme") on 7 July 2007.

The outstanding share options under the 2007 Share Option Scheme was the options granted on 18 August 2014, which entitled holders to subscribe for a total of 22,147,000 shares of USD0.0025 each. The options were 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.

The 2007 Share Option Scheme expired on 6 July 2017. A total of 35,170,000 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 22,147,000 options granted under the 2007 Share Option Scheme remained outstanding and exercisable until 18 August 2019 according to the terms of grant, notwithstanding the expiry of the 2007 Share Option Scheme.

A new share option scheme of the Company and the expiry of the 2007 Share Option Scheme were approved by the Company in the Annual General Meeting held on 26 May 2017.

On 11 January 2018, options entitled holders to subscribe for a total of 60,000,000 shares of USD0.0025 each were granted to and accepted by certain Directors, employees and consultants of the Company in respect of their services to the Group. 50% of these share options will be vested on 31 March 2019 if the consolidated audited net profit of the Company for the year ending 31 December 2018 represents an increase of 50% or more as compared to that of the year ended 31 December 2017. The remaining 50% of these share options will be vested on 31 March 2020 if the consolidated audited net profit of the Company for the year ending 31 December 2019 represents an increase of 50% or more as compared to that of the year ended 31 December 2018. All these options have an initial exercise price of HKD1.50 per share of USD0.0025 each and an exercise period commencing from the relevant vesting date and ending on 31 December of the same year as the vesting date. The closing price of the Company's shares at the date of grant was HKD1.29 per share of USD0.0025 each.

	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[1]	Exercise price per share	Market value per share at date of grant of options[2]	Market value per share on exercise of options[2]
Directors										
Mr. Zhu Xiaokun	500,000	–	–	–	500,000	18 August 2014	19 August 2014 to 18 August 2019	HKD1.78	HKD1.78	–
Mr. Wu Suojun	867,000	–	–	–	867,000	18 August 2014	19 August 2014 to 18 August 2019	HK$1.78	HKD1.78	–
	–	800,000	–	–	800,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
	–	800,000	–	–	800,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Yan Ronghua	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HK$1.78	HKD1.78	–
	–	500,000	–	–	500,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
	–	500,000	–	–	500,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Jiang Guangqing	300,000	–	–	–	300,000	18 August 2014	19 August 2014 to 18 August 2019	HK$1.78	HKD1.78	–
	–	300,000	–	–	300,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
	–	300,000	–	–	300,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Lee Cheuk Yin, Dannis	–	150,000	–	–	150,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
	–	150,000	–	–	150,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Gao Xiang	–	150,000	–	–	150,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
	–	150,000	–	–	150,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Mr. Wang Xuesong	–	150,000	–	–	150,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
	–	150,000	–	–	150,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
Employees	20,180,000	–	–	–	20,180,000	18 August 2014	19 August 2014 to 18 August 2019	HK$1.78	HKD1.78	–
Employees	–	27,950,000	–	–	27,950,000	11 January 2018	31 March 2019 to 31 December 2019	HK$1.50	HK$1.29	–
Employees	–	27,950,000	–	–	27,950,000	11 January 2018	31 March 2020 to 31 December 2020	HK$1.50	HK$1.29	–
	22,147,000	60,000,000	–	–	82,147,000					

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

Note (1):

For the share options granted on 18 August 2014, such share options granted do not contain any minimum period for which an option must be held before it can be exercised.

For the share options granted on 11 January 2018, such share options granted shall vest in the grantees in accordance with the table below:

Vesting Date	Percentage of shares options
If the consolidated audited net profit of the Company for the year ending 31 December 2018 represents an increase of 50% or more as compared to that of the year ended 31 December 2017, the Vesting Date will be 31 March 2019.	50% of the total number of share options granted
If the consolidated audited net profit of the Company for the year ending 31 December 2019 represents an increase of 50% or more as compared to that of the year ended 31 December 2018, the Vesting Date will be 31 March 2020.	50% of the total number of share options granted

Note (2):

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.

During the Reporting Period, the market price range of the Company's shares is HK$1.18 to 1.86. As at the date of 30 June 2018, 22,147,000 of ordinary shares may be issued pursuant to the exercise of the outstanding share options granted under the 2007 Share Option Scheme and their exercise price is HK$1.50.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2018, 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 2018, 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 2018 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 2018 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 2018

Independent Review Report

Review report to the board of directors of
Tiangong International Company Limited
for the six months ended 30 June 2018
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 58 which comprises the consolidated statement of financial position of Tiangong International Company Limited as at 30 June 2018 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated 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 2018 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 2018

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018 (unaudited)

	Note	Six months ended 30 June 2018 RMB'000	 2017 RMB'000 (Note)
Revenue	3	**2,347,657**	1,877,005
Cost of sales		**(2,038,311)**	(1,662,936)
Gross profit		**309,346**	214,069
Other income	4	**16,260**	6,308
Distribution expenses		**(50,901)**	(42,255)
Administrative expenses		**(72,560)**	(63,429)
Other expenses	5	**(42,383)**	(9,805)
Profit from operations		**159,762**	104,888
Finance income		**3,647**	2,664
Finance expenses		**(67,178)**	(59,102)
Net finance costs	6(a)	**(63,531)**	(56,438)
Share of profits/(losses) of associates		**2,590**	(1,628)
Share of profits/(losses) of joint ventures		**8,203**	(720)
Profit before income tax	6	**107,024**	46,102
Income tax	7	**(19,093)**	(5,197)
Profit for the period		**87,931**	40,905
Attributable to:			
Equity shareholders of the Company		**84,441**	39,290
Non-controlling interests		**3,490**	1,615
Profit for the period		**87,931**	40,905
Earnings per share (RMB)	8		
Basic		**0.036**	0.018
Diluted		**0.036**	0.018

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 29 to 58 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018 (unaudited)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
		(Note (i))
Profit for the period	**87,931**	40,905
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income — net movement in fair value reserve (net of tax of RMB1,680,000) (non-recycling)	**(9,520)**	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of entities with functional currencies other than RMB	**(1,535)**	8,860
Available-for-sale securities: net movement in the fair value reserve (net of tax of RMB510,000) (recycling) (Note (ii))	**–**	(2,890)
Other comprehensive income for the period	**(11,055)**	5,970
Total comprehensive income for the period	**76,876**	46,875
Attributable to:		
Equity shareholders of the Company	**73,386**	45,260
Non-controlling interests	**3,490**	1,615
Total comprehensive income for the period	**76,876**	46,875

Notes:

(i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018, the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See Note 2(b).

The notes on pages 29 to 58 form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2018 (unaudited)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	9	3,536,737	3,520,344
Lease prepayments		70,001	70,875
Goodwill		21,959	21,959
Interest in associates		51,174	49,372
Interest in joint ventures		30,868	26,263
Other financial assets	10	97,710	88,900
Deferred tax assets		30,689	23,954
		3,839,138	3,801,667
Current assets			
Trading securities		2,150	–
Inventories	11	1,886,095	1,896,864
Trade and other receivables	12	2,230,829	2,044,171
Pledged deposits	13	285,380	241,380
Time deposits		772,150	500,000
Cash and cash equivalents	14	405,140	219,798
		5,581,744	4,902,213
Current liabilities			
Interest-bearing borrowings	15	2,551,300	2,170,279
Trade and other payables	16	1,454,297	1,302,982
Current taxation		11,324	4,164
Deferred income		5,279	5,499
		4,022,200	3,482,924
Net current assets		1,559,544	1,419,289
Total assets less current liabilities		5,398,682	5,220,956
Non-current liabilities			
Interest-bearing borrowings	15	648,196	823,013
Deferred income		53,137	37,777
Deferred tax liabilities		57,908	57,201
		759,241	917,991
Net assets		4,639,441	4,302,965

Consolidated Statement of Financial Position

As at 30 June 2018 (unaudited)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000 (Note)
Capital and reserves			
Share capital	17(b)	**45,242**	40,477
Reserves		**4,447,388**	4,119,167
Total equity attributable to equity shareholders of the Company		**4,492,630**	4,159,644
Non-controlling interests		**146,811**	143,321
Total equity		**4,639,441**	4,302,965

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

Approved and authorised for issue by the board of directors on 15 August 2018.

Zhu Xiaokun
Directors

Yan Ronghua
Directors

The notes on pages 29 to 58 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 (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 (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity 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(a)	–	–	–	–	–	–	–	–	–	(22,200)	–	(22,200)
Balance at 30 June 2017 and 1 July 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
Changes in equity for the six months ended 31 December 2017													
Profit for the period		–	–	–	–	–	–	–	–	–	129,809	3,987	133,796
Other comprehensive income		–	–	–	–	–	(4,035)	(16,490)	–	–	–	–	(20,525)
Total comprehensive income		–	–	–	–	–	(4,035)	(16,490)	–	–	129,809	3,987	113,271
Dividends adjustment in respect of the previous year	17(a)	–	–	–	–	–	–	–	–	–	70	–	70
Transfer to reserve		–	–	–	–	–	–	–	–	21,683	(21,683)	–	–
Exercise of share options		310	11,458	–	(2,253)	–	–	–	–	–	–	–	9,515
Balance at 31 December 2017 (Note)		40,477	1,602,218	492	70,595	91,925	(57,076)	53,975	–	566,221	1,790,817	143,321	4,302,965

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 (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 (recycling) RMB'000	Fair value reserve (non-recycling) RMB'000	PRC statutory reserve RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017		40,477	1,602,218	492	70,595	91,925	(57,076)	53,975	–	566,221	1,790,817	143,321	4,302,965
Impact on initial application of IFRS 9	2	–	–	–	–	–	–	(53,975)	53,975	–	(31,897)	–	(31,897)
Balance at 1 January 2018		40,477	1,602,218	492	70,595	91,925	(57,076)	–	53,975	566,221	1,758,920	143,321	4,271,068
Changes in equity for the six months ended 30 June 2018													
Profit for the period		–	–	–	–	–	–	–	–	–	84,441	3,490	87,931
Other comprehensive income		–	–	–	–	–	(1,535)	–	(9,520)	–	–	–	(11,055)
Total comprehensive income		–	–	–	–	–	(1,535)	–	(9,520)	–	84,441	3,490	76,876
Dividends approved in respect of the previous year	17(a)	–	–	–	–	–	–	–	–	–	(100,183)	–	(100,183)
Shares allotment	17(b)	4,765	381,884	–	–	–	–	–	–	–	–	–	386,649
Issuance of share options	17(c)	–	–	–	5,031	–	–	–	–	–	–	–	5,031
Balance at 30 June 2018		45,242	1,984,102	492	75,626	91,925	(58,611)	–	44,455	566,221	1,743,178	146,811	4,639,441

The notes on pages 29 to 58 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018 (unaudited)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
		(Note)
Operating activities		
Cash generated from operations	**217,102**	(83,734)
Tax paid	**(10,815)**	(11,797)
Net cash generated from/(used in) operating activities	**206,287**	(95,531)
Investing activities		
Payment for the purchase of property, plant and equipment	**(131,169)**	(87,672)
Other cash flows (used in)/generated from investing activities	**(315,113)**	168,310
Net cash (used in)/generated from investing activities	**(446,282)**	80,638
Financing activities		
Proceeds from new interest-bearing borrowings	**2,443,109**	2,738,320
Repayment of interest-bearing borrowings	**(2,236,905)**	(2,636,980)
Dividend paid to equity shareholders of the Company	**(100,183)**	–
Proceeds from shares allotment	**386,649**	–
Interest paid	**(67,204)**	(52,384)
Net cash generated from financing activities	**425,466**	48,956
Net increase in cash and cash equivalents	**185,471**	34,063
Cash and cash equivalents at 1 January	**219,798**	259,546
Effect of foreign exchange rates changes	**(129)**	1,136
Cash and cash equivalents at 30 June	**405,140**	294,745

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 29 to 58 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2018 (unaudited)

1 BASIS OF PREPARATION

This interim financial report of Tiangong International Company Limited (the "Company") and its subsidiaries (collectively referred to as 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 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 audited financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017 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 21.

The financial information relating to the financial year ended 31 December 2017 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 2017. The Company's auditor has reported on those financial statements for the financial year ended 31 December 2017. 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

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

The Group has been impacted by IFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by IFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in Note 2(b) for IFRS 9 and Note 2(c) for IFRS 15.

Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following is a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9:

	At 31 December 2017	Impact on initial application of IFRS 9 (Note 2(b))	At 1 January 2018
	RMB'000	RMB'000	RMB'000
Interest in associates	49,372	(409)	48,963
Interest in joint ventures	26,263	(2,083)	24,180
Deferred tax assets	23,954	5,466	29,420
Total non-current assets	**3,801,667**	**2,974**	**3,804,641**
Trade and other receivables	2,044,171	(34,871)	2,009,300
Total current assets	**4,902,213**	**(34,871)**	**4,867,342**
Net assets	**4,302,965**	**(31,897)**	**4,271,068**
Reserves	4,119,167	(31,897)	4,087,270
Total equity attributable to equity shareholders of the Company	**4,159,644**	**(31,897)**	**4,127,747**
Total equity	**4,302,965**	**(31,897)**	**4,271,068**

Further details of these changes are set out in sub-section (b) of this note.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following is a summary of the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses:	
— Interest in associates	(409)
— Interest in joint ventures	(2,083)
— Trade and other receivables	(34,871)
— Related tax	5,466
Net decrease in retained earnings at 1 January 2018	(31,897)
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI and decrease in fair value reserve (recycling) at 1 January 2018	(53,975)
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	53,975

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(i) Classification of financial assets and financial liabilities (continued)

The following shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets carried at amortised cost				
Trade and other receivables	2,044,171	–	(34,871)	2,009,300
Pledged deposits	241,380	–	–	241,380
Time deposits	500,000	–	–	500,000
Cash and cash equivalents	219,798	–	–	219,798
	3,005,349	–	(34,871)	2,970,478
Financial assets measured at FVOCI (non-recyclable)				
Equity securities not held for trading (Note)	–	88,900	–	88,900
Financial assets classified as available-for-sale under IAS 39 (Note)	88,900	(88,900)	–	–

Note: Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in Bank of Jiangsu, Xiamen Chuangfeng Yizhi Investment Management Partnership and Nanjing Xiaomuma Technology Co., Ltd. at FVOCI (non-recycling), as the investments are held for strategic purposes.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, pledged deposits, time deposits and trade and other receivables); and

— contract assets as defined in IFRS 15 (see Note 2(c)).

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable;

— loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(ii) Credit losses (continued)

Measurement of ECLs (continued)

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates ;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(ii) Credit losses (continued)

Significant increases in credit risk (continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(ii) Credit losses (continued)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB37,363,000, resulting in a decrease of RMB34,871,000 in trade and other receivables, RMB409,000 in interest in associates and RMB2,083,000 in interest in joint ventures, which decreased retained earnings by RMB31,897,000 and increased deferred tax assets by RMB5,466,000 at 1 January 2018.

The following reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	38,359
Additional credit loss recognised at 1 January 2018 on:	
— Trade and other receivables	34,871
Loss allowance at 1 January 2018 under IFRS 9	73,230

2 CHANGES IN ACCOUNTING POLICIES (continued)

(b) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (continued)

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held; and

  — the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and certain costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

No adjustment was made by the Group upon the initial adoption of IFRS 15.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(c) IFRS 15, *Revenue from contracts with customers* (continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods.

(ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

2 CHANGES IN ACCOUNTING POLICIES (continued)

(c) IFRS 15, *Revenue from contracts with customers* (continued)

(iii) Sales commissions payable related to sales contracts

The Group previously recognised sales commissions payable related to sales contracts as distribution expenses when they were incurred. Under IFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related sale is recognised and are included as distribution expenses at that time.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

(iv) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

(d) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

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 five 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 to the tools industry

— *Titanium alloy* The titanium alloy segment manufactures and sells titanium alloys to the titanium industry

— *Trading of goods* The trading of goods segment sells general carbon steel products that are not within the Group's production scope

(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 basis:

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 six months ended 30 June 2018 and 2017 is set out below.

	Six months ended 30 June 2018					
	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	988,696	374,851	270,512	106,700	606,898	2,347,657
Inter-segment revenue	–	111,008	–	–	–	111,008
Reportable segment revenue	988,696	485,859	270,512	106,700	606,898	2,458,665
Reportable segment profit (adjusted EBIT)	141,188	68,705	33,083	16,193	193	259,362

	As at 30 June 2018					
	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	3,611,666	2,199,813	1,309,544	562,960	10	7,683,993
Reportable segment liabilities	1,023,454	247,019	145,728	66,073	–	1,482,274

3 REVENUE AND SEGMENT REPORTING (continued)

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

	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 (Note)
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 31 December 2017					
	DS RMB'000	HSS RMB'000	Cutting tools RMB'000	Titanium alloy RMB'000	Trading of goods RMB'000	Total RMB'000 (Note)
Reportable segment assets	3,234,273	2,302,430	1,404,979	543,472	10	7,485,164
Reportable segment liabilities	786,721	308,703	176,268	52,702	–	1,324,394

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 (see Note 2(c)).

3 REVENUE AND SEGMENT REPORTING (continued)

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

Revenue	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Reportable segment revenue	**2,458,665**	1,953,836
Elimination of inter-segment revenue	**(111,008)**	(76,831)
Consolidated revenue	**2,347,657**	1,877,005

Profit	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Reportable segment profit	**259,362**	171,814
Net finance costs	**(63,531)**	(56,438)
Share of profits/(losses) of associates	**2,590**	(1,628)
Share of profits/(losses) of joint ventures	**8,203**	(720)
Other unallocated head office and corporate expenses	**(99,600)**	(66,926)
Consolidated profit before income tax	**107,024**	46,102

Assets	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Reportable segment assets	**7,683,993**	7,485,164
Interest in associates	**51,174**	49,372
Interest in joint ventures	**30,868**	26,263
Other financial assets	**97,710**	88,900
Deferred tax assets	**30,689**	23,954
Trading securities	**2,150**	–
Pledged deposits	**285,380**	241,380
Time deposits	**772,150**	500,000
Cash and cash equivalents	**405,140**	219,798
Other unallocated head office and corporate assets	**61,628**	69,049
Consolidated total assets	**9,420,882**	8,703,880

3 REVENUE AND SEGMENT REPORTING (continued)

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

Liabilities	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Reportable segment liabilities	**1,482,274**	1,324,394
Interest-bearing borrowings	**3,199,496**	2,993,292
Current taxation	**11,324**	4,164
Deferred tax liabilities	**57,908**	57,201
Other unallocated head office and corporate liabilities	**30,439**	21,864
Consolidated total liabilities	**4,781,441**	4,400,915

(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.

Revenue	Six months ended 30 June 2018 RMB'000	2017 RMB'000
The PRC	**1,556,810**	1,299,502
North America	**235,412**	201,219
Europe	**396,190**	247,906
Asia (other than the PRC)	**134,514**	97,083
Others	**24,731**	31,295
Total	**2,347,657**	1,877,005

For the six months ended 30 June 2018, the Group's customer base is diversified and includes one customer (six months ended 30 June 2017: one customer) with whom transactions exceeded 10% of the Group's revenue. For the six months ended 30 June 2018, revenues from trading of goods to this customer amounted to approximately RMB564,827,000 (six months ended 30 June 2017: nil) and arose in the PRC region.

4 OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Government grants	**9,796**	3,615
Sales of scrap materials	**2,506**	256
Net foreign exchange gain	**3,526**	–
Dividend income from listed securities	**–**	1,780
Net gain on disposal of property, plant and equipment	**–**	190
Others	**432**	467
	16,260	6,308

Subsidiaries of the Company located in the PRC received unconditional grants amounting to RMB6,936,000 (six months ended 30 June 2017: RMB342,000) 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 2018. The Group also recognised amortisation of government grants related to assets of RMB2,860,000 (six months ended 30 June 2017: RMB3,273,000) during the six months ended 30 June 2018.

5 OTHER EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Provision of impairment losses for doubtful trade receivables	**39,099**	3,211
Net loss on disposal of property, plant and equipment	**1,374**	–
Charitable donations	**1,000**	–
Net realised and unrealised losses on trading securities	**255**	–
Net foreign exchange loss	**–**	6,370
Others	**655**	224
	42,383	9,805

6 PROFIT BEFORE INCOME TAX

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

(a) Net finance costs

		Six months ended 30 June	
		2018	2017
	Note	**RMB'000**	RMB'000
Interest income		**(3,647)**	(2,664)
Finance income		**(3,647)**	(2,664)
Interest on bank loans		**79,618**	71,594
Less: interest expense capitalised into property, plant and equipment under construction	9	**(12,440)**	(12,492)
Finance expenses		**67,178**	59,102
Net finance costs		**63,531**	56,438

(b) Other items

		Six months ended 30 June	
		2018	2017
	Note	**RMB'000**	RMB'000
Cost of inventories*		**2,038,311**	1,662,936
Depreciation		**112,085**	108,243
Amortisation of lease prepayments		**874**	874
Provision for write-down of inventories	11	**220**	9,436

* Cost of inventories includes RMB97,459,000 (six months ended 30 June 2017: RMB108,906,000) 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	
	2018	2017
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax — corporation tax	**15,203**	6,711
Provision for Hong Kong profits tax	**2,772**	–
	17,975	6,711
Deferred tax		
Origination and reversal of temporary differences	**1,118**	(1,514)
	19,093	5,197

(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 Jiangsu Tiangong Technology Company Limited are subject to a preferential income tax rate of 15% in 2018 available to enterprises which qualify as a High and New Technology Enterprise (2017: 15%).

The statutory corporate income tax rate applicable to the Group's other operating subsidiaries in the PRC is 25% (2017: 25%).

(c) Hong Kong profits tax has been provided for Tiangong Development Hong Kong Company Limited at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2018.

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 RMB84,441,000 (six months ended 30 June 2017: RMB39,290,000) and the weighted average of 2,322,383,333 ordinary shares in issue during the interim period (six months ended 30 June 2017: 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 RMB84,441,000 (six months ended 30 June 2017: RMB39,290,000) and the weighted average number of ordinary shares of 2,324,099,955 (including effect of equity settled share-based transactions) (six months ended 30 June 2017: 2,225,934,849) for the six months ended 30 June 2018 after taking into account the potential dilutive effect of share options.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of plant and machinery at a cost of RMB131,169,000 (six months ended 30 June 2017: RMB75,008,000), excluding capitalised borrowing costs of RMB12,440,000 (six months ended 30 June 2017: RMB12,492,000). There were no material disposals of property, plants and equipment for the periods presented.

10 OTHER FINANCIAL ASSETS

	Note	**At 30 June 2018 RMB'000**	At 1 January 2018 RMB'000	At 31 December 2017 RMB'000
Equity securities designated at FVOCI (non-recycling)	(iii)			
— Listed in the PRC	(i)	**82,310**	73,500	–
— Unlisted equity securities	(ii)	**15,400**	15,400	–
Available-for-sale financial assets	(iii)			
— Listed in the PRC		**–**	–	73,500
— Unlisted equity securities		**–**	–	15,400
		97,710	88,900	88,900

Notes:

(i) The listed equity securities are shares in Bank of Jiangsu Co., Ltd. a company listed on the Mainboard of the Shanghai Stock Exchange and shares in JM Digital Steel Inc., a company listed on the National Equities Exchange and Quotations System. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB1,780,000).

Equity securities listed in the PRC of RMB62,300,000 (2017: RMB73,500,000) are pledged to a bank as security for the Group's bank loans as set out in Note 15.

(ii) The unlisted equity securities are shares in Xiamen Chuangfeng Yizhi Investment Management Partnership, a company incorporated in the PRC and shares in Nanjing Xiaomuma Technology Co., Ltd., a company incorporated in the PRC. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

(iii) Available-for-sale financial assets were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of IFRS 9 at 1 January 2018 (see Note 2(b)(i)).

11 INVENTORIES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	63,931	61,493
Work in progress	827,085	768,618
Finished goods	995,079	1,066,753
	1,886,095	1,896,864

During the six months ended 30 June 2018, the Group recognised a write-down of RMB220,000 (six months ended 30 June 2017: RMB9,436,000) 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 2018 RMB'000	At 1 January 2018 RMB'000	At 31 December 2017 RMB'000
Trade receivables	1,097,074	1,019,779	1,019,779
Bills receivable	815,784	726,603	726,603
Less: provision for doubtful debts (Note)	(112,329)	(73,230)	(38,359)
Net trade and bills receivable	1,800,529	1,673,152	1,708,023
Prepayments	349,291	231,444	231,444
Non-trade receivables	81,009	104,704	104,704
Less: provision for doubtful debts	–	–	–
Net prepayments and non-trade receivables	430,300	336,148	336,148
	2,230,829	2,009,300	2,044,171

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see Note 2(b)(ii)).

12 TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables of RMB150,215,000 (2017: RMB123,200,000) have been pledged to a bank as security for the Group's bank loans as disclosed in Note 15.

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 loss allowance, is as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	**1,435,445**	1,521,338
4 to 6 months	**240,520**	117,972
7 to 12 months	**90,403**	44,940
1 to 2 years	**23,200**	13,457
Over 2 years	**10,961**	10,316
	1,800,529	1,708,023

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 RMB285,380,000 (2017: RMB241,380,000) 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 2018 are cash at bank and on hand.

15 INTEREST-BEARING BORROWINGS

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Current			
Secured bank loans	(i)	269,882	291,990
Unsecured bank loans	(ii)	1,337,819	1,506,547
Current portion of non-current secured bank loans		46,400	46,400
Current portion of non-current unsecured bank loans		897,199	325,342
		2,551,300	2,170,279
Non-current			
Secured bank loans	(iii)	46,400	46,400
Unsecured bank loans	(iv)	1,545,395	1,148,355
Less: Current portion of non-current secured bank loans		(46,400)	(46,400)
Less: Current portion of non-current unsecured bank loans		(897,199)	(325,342)
		648,196	823,013
		3,199,496	2,993,292

(i) The current bank loans were secured by certain trade receivables and sales contracts at annual interest rates ranging from 0.90% to 3.50% (2017: 0.90% to 3.50%) and were repayable within one year.

(ii) Current unsecured bank loans carried interest at annual rates ranging from 1.55% to 5.22% (2017: 2.00% to 5.22%) and were repayable within one year.

(iii) Non-current secured bank loans were secured by certain equity securities which carried interest at annual rates of 5.50% (2017: 5.50%).

(iv) Non-current unsecured bank loans carried interest at annual rates ranging from 2.65% to 5.13% (2017: 2.34% to 5.13%).

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 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**943,599**	371,742
Over 1 year but within 2 years	**648,196**	790,342
Over 2 years but less than 3 years	**–**	32,671
	1,591,795	1,194,755

As at 30 June 2018, 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 2018, none of the covenants relating to drawn down facilities had been breached (2017: 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 2018 RMB'000	At 31 December 2017 RMB'000
Within 3 months	**737,387**	474,445
4 to 6 months	**300,210**	334,821
7 to 12 months	**209,332**	286,691
1 to 2 years	**13,547**	14,793
Over 2 years	**34,875**	27,678
Total trade creditors and bills payable	**1,295,351**	1,138,428
Non-trade payables and accrued expenses	**158,946**	164,554
	1,454,297	1,302,982

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2018 RMB'000	2017 RMB'000
Dividend in respect of the previous financial year, approved and paid during the interim period, of RMB0.0378 per share (approved but not paid during the six months ended 30 June 2017: RMB0.0100 per share)	**100,183**	22,200

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 2017).

(b) Shares allotment

On 11 May 2018, an aggregate of 300,000,000 new ordinary shares of HKD1.60 each were allotted to certain professional, institutional or corporate investors pursuant to a subscription agreement dated 28 April 2018. Total proceeds of HKD480,000,000 (equivalent to RMB388,440,000), net of direct share issuance expense of HKD2,214,000 (equivalent to RMB1,791,000), were raised, of which RMB4,765,000 was credited to share capital and the balance of RMB381,884,000 was credited to the share premium account.

(c) Equity settled share-based transactions

On 11 January 2018, 60,000,000 share options were granted to employees of the Company in two lots under the Company's employee share option scheme adopted on 26 May 2017 (no share options were granted during the six months ended 30 June 2017). Each option gives the holder the right to subscribe for one ordinary share of the Company. These share options will vest on 31 March 2019 and 2020, and then be exercisable until 31 December 2019 and 2020 respectively. The amount payable on acceptance per grant is HKD1.00. The exercise price is HKD1.50.

No options were exercised during the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

When the options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in capital reserve will be transferred to retained earnings.

The following assumptions were used to calculate the fair values of share options granted at date of grant:

	Share options granted on 18 August 2014	**Share options granted on 11 January 2018 (Lot A)**	**Share options granted on 11 January 2018 (Lot B)**
Fair value at grant date	HKD0.59 per share option	HKD0.23 per share option	HKD0.34 per share option
Grant date share price	HKD1.78 per share	HKD1.29 per share	HKD1.29 per share
Exercise price	HKD1.78 per share	HKD1.50 per share	HKD1.50 per share
Expected volatility	48.17%	44.31%	49.44%
Contractual option life	5 years	1.97 years	2.97 years
Dividend yield	3.04%	1.76%	1.76%
Risk-free interest rate	1.22%	1.29%	1.51%
Exercise multiple			
– Directors:	2.800	1.788	1.788
– Management:	2.800	–	–
– Employees:	2.200	1.768	1.768

17 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Equity settled share-based transactions (continued)

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The values of the stock options are calculated based on the assumptions that are considered to be relevant. Such values are therefore subject to the assumptions used and the limitation of the pricing model adopted.

(d) Reserves

(i) Fair value reserve (recycling)

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under IFRS 9 held at the end of the reporting period (see Note 2(b)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with IAS 39. This amount has been reclassified to fair value reserve (non-recycling) upon the initial adoption of IFRS 9 at 1 January 2018 (see Note 2(b)).

(ii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 2(b)(i)).

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.

Listed equity securities of Bank of Jiangsu mentioned in Note 10 and 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 standard. As all significant inputs is measured at unadjusted quoted prices in active markets, the instrument shall be included in Level 1.

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(a) Financial assets measured at fair value (continued)

The fair value of listed equity securities of JM Digital Steel Inc., and unlisted equity securities mentioned in Note 10 is determined using the price/earning or price/book value ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability.

From 1 January 2018, any gains or losses arising from the remeasurement of the Group's listed equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains arising from the disposal of the listed equity securities were presented in the "Other income" line item in the consolidated statement of profit or loss.

(b) Fair values of financial assets and liabilities carried at other than fair value

Except for equity securities mentioned in Note 10 and trading securities, all financial instruments measured at other than fair value are carried at cost or amortised cost that were not materially different from their fair values as at 30 June 2018 and 31 December 2017.

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	
	2018	2017
	RMB'000	RMB'000
Lease expenses to:		
Controlling shareholder's company	**500**	500
Sales of goods to:		
Joint ventures	**90,703**	111,342
Associates	**204,678**	176,250
Controlling shareholder's family member's company	**10,107**	3,640
Freight expenses to:		
Associates	**–**	317
Purchase of goods from:		
Controlling shareholder's family member's company	**–**	1,444

19 RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions-recurring (continued)

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.

(b) Amounts due from related parties

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Joint ventures	**253,587**	295,685
Associates	**52,239**	29,370
Controlling shareholder's family member's company	**3,201**	1,923
	309,027	326,978

(c) Amounts due to related parties

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Associates	**6,788**	7,004

20 COMMITMENTS

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	101,557	25,362
Authorised but not contracted for	307,303	410,000
	408,860	435,362

(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 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	1,000	1,021
After 1 year but within 5 years	500	1,000
	1,500	2,021

21 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.