DONGWU CEMENT INTERNATIONAL LIMITED

東吳水泥國際有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 695

Annual Report 2016

CONTENTS

DEFINITIONS

In this report, unless the context otherwise requires, the following terms have the following meanings:

associated corporation(s)	has the same meaning ascribed to it under the SFO
associate(s)	has the same meaning ascribed to it under the Listing Rules
Audit Committee	the audit committee of the Company
Biofit Group	Shanghai Biofit and its subsidiaries acquired by the Group on 30 April 2015
Board	the board of Directors
Capital Increase	the capital increase under the Capital Increase Agreement
Capital Increase Agreement	the agreement dated 7 March 2016 and entered into between Shanghai Dong Xi, Xi Hua Shanghai and Shanghai Biofit in relation to the Capital Increase
Company	Dongwu Cement International Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
Concord	Concord Ocean Ltd, a substantial Shareholder, which is wholly-owned by Mr. Jin Chungen, a former executive Director, who resigned on 14 November 2016 but remains as Chief Executive Officer of the Company
controlling shareholder(s)	has the same meaning ascribed to it under the Listing Rules
Corporate Governance Code	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
Director(s)	the director(s) of the Company
Dongfang Jiujiu	蘇州東方九久實業有限公司 Suzhou Dongfang Jiujiu Industry Co., Ltd.*, a company established in the PRC with limited liability
Eastwest	Eastwest Holdings Group Ltd., a company wholly-owned by Mr. Ling Chao, an executive Director
Goldview	Goldview Development Limited, a controlling Shareholder and an associated corporation of the Company, which is wholly-owned by Mr. Tseung Hok Ming, the non-executive Director
Group	the Company and its subsidiaries
HK$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
IPO	the initial public offering of the Shares by the Company on 13 June 2012

DEFINITIONS

Joint Venture Agreement	the joint venture agreement entired into between Suzhou Dongwu and Dongfang Jiujiu on 1 March 2017
Latest Practicable Date	10 April 2017
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Model Code	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
PRC or China	The People's Republic of China, which only for the purpose of this report, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Prospectus	the prospectus of the Company dated 1 June 2012 in relation to its IPO
Reporting Period	the year ended 31 December 2016
RMB or Renminbi	Renminbi, the lawful currency of the PRC
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shanghai Biofit	上海百菲特環保科技有限公司 Shanghai Biofit Environmental Technology Co., Ltd.*, a company incorporated in the PRC with limited liability on 5 July 2011
Shanghai Dong Xi	上海東熙投資發展有限公司 Shanghai Dong Xi Investment Development Company Limited*, a company incorporated in the PRC, and Mr. Ling Chao, an executive Director, is the sole shareholder of Shanghai Dong Xi
Shareholder(s)	holder(s) of the Shares
Shares	ordinary share(s) of HK$0.01 each in the share captial of the Company
Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder(s)	has the same meaning ascribed to it under the Listing Rules
Suzhou Dongwu	蘇州東吳水泥有限公司 Suzhou Dongwu Cement Co., Ltd.*, a company incorporated in the PRC with limited liability on 5 June 2003 and an indirect wholly-owned subsidiary of the Company
Xi Hua Shanghai	熙華(上海)投資管理有限公司 Xi Hua Shanghai Investment Management Company Limited*, a company incorporated in the PRC and a wholly-owned subsidiary of the Company
%	per cent.

* *For identification purpose only*

CORPORATE INFORMATION

Board of Directors

Executive Directors

Xie Yingxia *(Chairman)*
Jin Chungen *(resigned on 14 November 2016, but remains as the Chief Executive Officer)*
Ling Chao
Peng Cheng (appointed on 17 October 2016)
Wong Hin Shek (appointed on 14 November 2016)
Wang Jun (appointed on 14 November 2016)

Non-executive Director

Tseung Hok Ming

Independent Non-executive Directors

Cao Guoqi
Cao Kuangyu
Lee Ho Yiu Thomas

Company Secretary

Sun Xin

Auditor

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Authorized Representatives

Xie Yingxia
Sun Xin

Audit Committee

Lee Ho Yiu Thomas *(Chairman)*
Cao Guoqi
Cao Kuangyu

Remuneration Committee

Cao Guoqi *(Chairman)*
Cao Kuangyu
Lee Ho Yiu Thomas

Nomination Committee

Cao Guoqi *(Chairman)*
Cao Kuangyu
Lee Ho Yiu Thomas

Stock Code

695

Company Website

www.dongwucement.com

Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal Place of Business in the PRC

East Taipu River Bridge Southeast
Lili Town,Wujiang District
Suzhou, Jiangsu Province, PRC

Principal Place of Business in Hong Kong

Units 8505B-06A, Level 85
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queens Road East
Wan Chai, Hong Kong

Hong Kong Legal Advisor

Li & Partners
22nd Floor, World-Wide House
Central, Hong Kong

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FINANCIAL HIGHLIGHTS

Statement of comprehensive income

(expressed in RMB'000, unless otherwise stated)

	2016	2015
Revenue	**255,914**	222,512
Profit/(loss) from operating activities	**8,632**	(13,021)
Profit/(loss) before income tax	**5,657**	(16,110)
Profit/(loss) for the year	**4,215**	(11,737)
Basic and diluted earnings (losses) per share (expressed in RMB per Share)	**0.005**	(0.021)

Statement of financial position

(expressed in RMB'000)

	2016	2015
Non-current assets	**150,207**	224,731
Current assets	**357,683**	278,068
Total assets	**507,890**	502,799
Total equity	**388,032**	363,817
Non-current liabilities	**6,514**	5,085
Current liabilities	**113,344**	133,897
Total liabilities	**119,858**	138,982
Total equity and liabilities	**507,890**	502,799

Statement of cash flows

(expressed in RMB'000)

	2016	2015
Net cash flows (used in)/from operating activities	**(48,592)**	36,681
Net cash flows from/(used in) investing activities	**1,442**	(45,424)
Net cash flows generated from financing activities	**14,000**	40,722
Net (decrease)/increase in cash and cash equivalents	**(33,150)**	31,979

FINANCIAL HIGHLIGHTS

Financial Highlights in Previous Years

Results

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**255,914**	222,512	340,093	359,007	321,118
Cost of sales	**(231,164)**	(226,382)	(321,677)	(314,428)	(298,895)
Gross profit/(gross loss)	**24,750**	(3,870)	18,416	44,579	22,123
Operating profit/(loss)	**8,632**	(13,021)	11,488	28,659	10,388
Profit/(loss) before tax	**5,657**	(16,110)	9,978	25,216	5,592
Income tax (expense)/credit	**(1,442)**	4,373	(4,237)	(8,963)	(4,554)
Profit/(loss) for the year	**2,564**	(11,737)	5,741	16,253	1,038

Assets and liabilities

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**507,890**	502,799	434,927	433,159	413,108
Total liabilities	**119,858**	138,982	99,995	103,968	100,170
Total equity	**507,890**	363,817	334,932	329,191	312,938

BUSINESS REVIEW

Confronting steadily improving macroeconomics and being affected by factors such as rising cement demand in 2016, combined with its proactive adjustment of operating strategies that has strengthened internal management, diversified its revenue sources and enhanced cost reduction, controlled production and operation cost, maintained consistent product quality and expanded sales channels, the Group recorded significant improvement for its production volume, sales volume, revenue and profit during the Reporting Period as compared with 2015.

During the Reporting Period, the Group strengthened the management in the procurement of raw and auxiliary materials, the consumption of each item and the production equipment and technologies, and strictly controlled the production cost. In 2016, the output for cement clinker amounted to 309,000 tonnes, and cement output amounted to 1,189,000 tonnes, among which, 560,000 tonnes were grade 32.5R# cement and 629,000 tonnes were grade 42.5# cement. The production costs for grade 32.5R cement, grade 42.5 cement and cement segments decreased to some extent as compared to 2015. The supply of raw and auxiliary materials for the production and the equipment operation were basically at normal levels, and the production safety were at normal levels throughout the year, and the quality acceptance rate of the outgoing cement reached 100% throughout the year.

During the Reporting Period, under the influence of the growth slowdown in macro-economy, a recessed real estate market in the region and an increase in cement production in the region, the competition in the cement market became fiercer. The Group proactively expanded sales with product sales volume reaching 1,183,000 tonnes, among which, 556,000 tonnes were grade 32.5R# cement and 619,000 tonnes were grade 42.5# cement, the income of the cement segment from principal business amounted to RMB222,540,000. Both the sales volume and income showed a significant increase as compared to last year.

The Group is determined to create the "DONGWU" Cement in order to gain enduring brand dominance. Since the founding of the Group, the path of building "DONGWU" Cement has been laid with unswerving resolution to implement the principle of high level of quality and high level of services. Currently, DONGWU Cement has been well recognized by customers in the markets of municipal engineering, transportation and construction in Suzhou City, which shapes a reputable brand image for DONGWU Cement. We will continue to consolidate the brand image of DONGWU Cement in the region to establish regional brand dominance, adding an edge in the brand of the Group.

The Group continues to promote technology innovation and technological reform, enhance production efficiency and reduce production cost and improve overall competitiveness of the Group in the market. The Group has been paying assiduous attention to the development and application of new technologies and new manufacturing processes all along, and introduces them into the actual production in due course, so as to improve the quality and efficiency of production and lower production costs, adding another competitive edge to the Group in the course.

The Group will make continuous progress in light of the actual circumstances of the Group and the social development needs. Internally, we will constantly enhance production management, lower production costs; improve quality and services, stick to the path of building brand dominance; strengthen marketing management, consolidate and expand sales network; innovate unrelentingly and cultivate the Group's creativity. Externally, we pay assiduous attention to the development of up- and down-stream of the cement industry and the development of the associated industries, so as to expand outwardly in due course to scale up the Group and its revenue. We are confident that the Group will achieve better results and have a promising development future with its responsible attitude towards investors and its steering wheel in the hands of the experienced management team.

CHAIRMAN'S STATEMENT

Financial Results

In 2016, the sales volume of the Group's cement products amounted to approximately 1,174.6 thousand tonnes, representing an increase of approximately 13.0% from 2015; the revenue amounted to approximately RMB220,815,000, representing an increase of approximately 6.5% from 2015; the gross profit margin of the cement segment amounted to approximately 6.9%, representing an increase of approximately 11.3% from 2015 in absolute terms. Further details are set out in the section headed Management Discussion and Analysis. For the year ended 31 December 2016, profit attributable to the Shareholders and the basic earnings per share were RMB2,564,000 and RMB0.005, respectively.

Dividends

The Board does not recommend payment of any final dividend for the year ended 31 December 2016.

Business Operation in 2016

In 2016, the sales volume, revenue and gross profit margin of the Group all exhibited an significant upward movement as compared with the corresponding period of last year as a result of steadily improving macroeconomics and rising cement demand.

In 2015, the Group entered into an acquisition agreement with an independent third party through its wholly-owned subsidiary Shanghai Xihua, and acquired the entire equity interest in Shanghai Biofit. Shanghai Biofit is a company possessing tier-3 professional contractor qualification for environmental engineering, and mainly engaged in organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services. The acquisition of Shanghai Biofit will generate synergy with the existing operations and diversify business income streams of the Group.

Future Prospect

In 2017, under the guidance of long-term development strategy, the Group will continue to enhance current manufacturing facility reform, proactively promote disposal of municipal sewage sludge, domestic waste and cement kiln unanimously, accelerate the transformation towards environmental preservation-oriented cement manufacturing entity, and improve the comprehensive competitiveness and market position, to ensure the Group becoming a leading cement manufacturing company within the region while focusing on local market.

In the field of environmental protection, Shanghai Biofit will continue to be devoted to such niches as sludge treatment and disposal, reclaimed water treatment, and dyeing wastewater treatment, with a long-term goal of becoming a provider of integrated environment services and an environmental protection platform.

In response to the national industry policy and the demand for transformation of cement industry, the Group utilized the 2,500 tonnes/day cement kiln of Suzhou Dongwu to co-process solid waste in the first quarter of 2017.

CHAIRMAN'S STATEMENT

Through the participation in the project of co-processing of solid waste in cement kilns, the Company can resolve the solid waste disposal problems in local areas. This will open timely and effective shortcuts to deal with local environmental contingencies, which will be conducive to the enhancement of the solid waste disposal capability in Suzhou city and the surrounding areas, thus realizing the terminal treatment in the goal of "reduction, resource utilization, non-hazardous". Moreover, this will positively contribute to the improvement of the ecological environment and economic development in the local areas, bringing sound economic benefits and social benefits. For further details of the Company's participation in the project of co-processing of solid waste in cement kilns, please refer to the Company's announcement dated 1 March 2017.

Appreciation

Lastly, on behalf of the Board, I would like to express my sincere gratitude to all our Shareholders, customers, consigners and bankers for their consistent trust and supports. Meanwhile, I would like to thank the management and all employees as well for their hard work and dedicated efforts, without which we would not achieve what we have achieved today.

In the new fiscal year, we will strive to move forward together, and believe that we will achieve better results in 2017. Thank you!

Xie Yingxia
Chairman

28 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Cement Segment

In 2016, China's major macroeconomic indicators have shown signs of stable growth. The gross domestic product for the year amounted to RMB74,412.7 billion, representing a growth of 6.7% over the corresponding period of last year (2015: 6.3%); fixed asset investment of China (excluding rural households) reached RMB59,650.1 billion, representing a nominal growth of 8.1% (the real growth was 8.8% after deducting the price factor) over the corresponding period of last year, but a decrease in growth rate by 1.9 percentage points as compared to 2015. National property development and investment reached RMB10,258.1 billion, representing a year-on-year nominal growth of 6.9% (the real growth was 7.5% after deducting the price factor), up by 5.9 percentage points as compared to 2015 (Source: website of PRC National Statistics Bureau).

The production of cement companies over a designated size amounted to 2.4 billion tonnes in 2016, posting a year-on-year increase of 2.5% (2015: a year-on-year decrease of 5.3%). In 2016, the implementation of the 13th Five-Year Plan for the national economy had a good start. Driven by the stable growth in infrastructure investment and the recovery of the real estate market, cement production maintained growth at a slow pace. Overall, the national economy saw a moderate but stable and sound growth. Meanwhile, the demand for cement has a relatively strong support, demonstrating a steady but upward trend (Source: Digital Cement Net).

The Group operates in a market in Eastern China. The price of cement fluctuated from January to December in 2016, and saw an upward trend in general. The Group sells cement in main capital cities of provinces, including Jiangsu, Zhejiang and Shanghai. In early December 2016, the average selling price of PO42.5 cement in Nanjing (capital of Jiangsu Province), Hangzhou (capital of Zhejiang Province) and Shanghai were RMB299 per tonne, RMB289 per tonne and RMB295 per tonne respectively, representing an increase of 30%, 11% and 15.7% as compared with the corresponding period of last year (Source: Digital Cement Net).

In 2016, the sales volume, revenue and gross profit margin of the Group all exhibited an upward movement as compared with the corresponding period of last year as a result of steadily improving macroeconomics and rising cement price. Hence, the revenue and gross profit margin of the Group for 2016 increased as compared with the corresponding period of last year. The Group recorded a profit of approximately RMB7,535,000 from the cement segment in 2016.

Environmental Protection Segment

The PRC government and all parties from the society are paying concern to the environmental protection issues, and have listed the environmental protection industry as one of the strategic industries in the long term development. With the promulgation of the Action Plan on Prevention and Control of Water Pollution (the "Ten Measures for Water Pollution") by the State Council on 16 April 2015, it is proposed that by 2020, China's water quality will gradually improve, the quality of drinking water will be safeguarded and the underground water pollution will be under strict control. It is expected that the external investment in the environmental protection industry will increase rapidly. "The Thirteen Five Year Plan" intends to invest RMB6 trillion on environmental protection in term of air, water and soil, representing an increase of RMB1 trillion as compared to RMB5 trillion in the "Twelfth Five Year Plan", among which, RMB4.6 trillion is to be invested in water pollutant prevention and control. It is intended to implement overall control on pollutants such as the total nitrogen and phosphorus in the key areas, including areas around rivers, lakes and seas and in the key industries. The environmental protection industry in the PRC will continue to expand in the near future, with sewage and sludge treatment as focus on environmental improvements, and generate more return on investment.

MANAGEMENT DISCUSSION AND ANALYSIS

According to the annual report issued by the United Nations on 20 March 2015, 40% of the countries and regions around the world will face drought issues by 2030. China lacks water resources, the average ownership per capita only accounts for one fourth of the average level of the world, ranking one of the 13 most water-deficient countries in the world. Therefore, advocating scientific water consumption is urgent. With the continuous development of the economy, increase in population, and the urbanization process, emission of sewage and sludge in China has been increasing in successive years. Industries related to traditional fossil energy and water-usage intensive industries usually consume plenty of water resources and cause pollution accordingly. The development of these industries provides good opportunities for the development of the sewage and sludge market.

Recently, China has imposed high standards for sewage and sludge treatment, strictly monitoring environmental pollution and protection while increasing environmental protection subsidy for enterprises, as a result of which, sewage and sludge treatment in cities and towns is currently in a stage of rapid development. In this stage, with the increasing investment in projects and the promotion under the national strategies, enterprises, merchants and investors in capital markets are paying more concern to environmental protection industry.

In view of this, the Group acquired the Biofit Group in 2015, aiming to explore the environmental protection segment market. The Biofit Group is devoted to such niches as sludge treatment and disposal, reclaimed water treatment and dyeing wastewater treatment. The operation of environmental protection segment of the Group has been incorporated into the consolidated statement of the Group on 30 April 2015.

The Risk Factors and Countermeasures of the Company

Significant fluctuations in the prevailing market price of cement may materially and adversely affect our profitability

Cement prices fluctuated significantly during the reporting period. The average prices of PC32.5 and PO42.5 increased by approximately 20% and 34.5% from approximately RMB161 per tonne and RMB165 per tonne in January 2015 to approximately RMB194 per tonne and RMB222 per tonne in December 2015 respectively. The increase in the prices for cement was attributable to the steady improvement of the cement market. The price for cement may continue to experience significant fluctuations in the future due to changes in the supply and demand for cement products in our existing and future markets. The Group may try to expend the sales volume during months in which cement prices are high to decrease the adverse effect of this risk.

Our profitability hinges on general market conditions in the construction industry including the level of fixed assets investment of our regional markets in Jiangsu Province, Zhejiang Province and Shanghai

We supply our cement products produced at our production facility in Wujiang District, Suzhou City of Jiangsu Province to regional markets in Jiangsu Province, Zhejiang Province and Shanghai. As such, demand for our cement products in these areas is dependent upon the construction activities and the level of investment in fixed assets in Jiangsu Province, Zhejiang Province and Shanghai which in turn can be significantly affected by any material changes in gross national product and its growth rate, level of fixed assets investment, PRC government policies, mortgage interest, interest, inflation, rate of unemployment, demographic trends and other relevant national and regional economic factors and conditions.

Influenced by the national steady improvement of fixed asset investment during the reporting period, fixed asset investment in Jiangsu Province, Zhejiang Province and Shanghai also shows upward trend. On the basis of maintaining a good relationship with existing customers, the Group actively explores new customers to reduce the adverse effects of the risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Our business operations are susceptible to disruptions by factors beyond our control such as adverse climatic conditions and government activities

Our operations are susceptible to factors and contingencies beyond our control that could result in material disruptions and adversely affect our revenues. These include fires, natural disasters, epidemics, raw material shortages, equipment and system failures or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or power grids. Adverse climatic conditions, such as extreme climatic and weather conditions, snow storms, heavy or sustained rainfall or drought affecting water levels in the Taihu lake and the Taipu River, may also affect our normal business operations. For example, we may encounter transportation delays in the supply and shipment of raw materials and products along the Taipu River at times of drought and flooding, causing water levels to fall or rise significantly, which could result in load restrictions being imposed or a suspension of river transportation services.

For the risks out of control, the Group will strive to keep the production in order and actively increase the sales volume when such risks have not yet appeared.

With the increasingly stringent PRC environmental regulatory framework, we may not be able to comply with relevant environmental regulations in the future on a cost-effective basis

We are subject to national and local environmental protection laws and regulations. These laws and regulations include provisions for prevention and treatment of noise, water, soil and air pollution and other industrial pollution. Failure to comply with these laws and regulations may result in penalties, fines, administrative sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. The PRC government has adopted various environmental policies to reduce the adverse effects of the cement industry on the environment. With the increasing awareness of environmental protection issues, we anticipate that the regulatory framework of Chinese government will become increasingly stringent. The government regulations affecting our business include those relating to air quality, solid waste management and sewage treatment. Such provisions are complicated and may be changed. It can't be ensured that the PRC government will not issue more stringent new industrial pollution rules and regulations, and we may not be able to comply with other environmental regulations in the future on a cost-effective basis or at all. In such circumstances, our business, results of operations and financial condition could be materially and adversely affected.

Business Review

Set out below is a detailed discussion and analysis of the performance of the Group during the financial year, as well as the major factors affecting its results of operations and financial position:

Turnover

During the Reporting Period, the Group's turnover amounted to approximately RMB255,914,000, representing an increase of approximately RMB33,402,000 or 15% from approximately RMB222,512,000 in 2015.

In particular, turnover of cement segment amounted to approximately RMB222,543,000, representing an increase of approximately RMB15,133,000 or 7.3% from approximately RMB207,410,000 in 2015. The increase was primarily attributable to the increase in sales volume driven by stronger support of cement demand during the Reporting Period.

The table below sets forth the analysis of the Group's turnover by product category:

	2016			2015		
	Sales Volume	**Average selling price**	**Turnover**	Sales Volume	Average selling price	Turnover
	Thousand Tonnes	***RMB/Tonne***	***RMB'000***	*Thousand Tonnes*	*RMB/Tonne*	*RMB'000*
PO 42.5 Cement	**618.9**	**195.51**	**121,004**	455.7	209.70	95,560
PC 32.5R Cement	**555.7**	**179.61**	**99,811**	584.1	191.49	111,850
Clinker	**7.9**	**218.73**	**1,728**	–	–	–

Categorized by product type, the sales volume of cement products in 2016 amounted to approximately 1,174.6 thousand tonnes, representing an increase of approximately 13.0% from 2015, while the sales income of cement products was approximately RMB220,815,000, representing an increase of approximately 6.5% from 2015. The sales income of clinker amounted to approximately RMB1,728,000 in 2016. All of the clinker produced by the Group was used for cement production without external sales in the corresponding period of last year.

The table below sets forth an analysis of the Group's turnover by geographical region:

	2016		2015	
	Turnover	**% of total**	Turnover	% of total
	RMB'000	**turnover**	*RMB'000*	turnover
Jiangsu Province	**191,786**	**86.18%**	180,857	87.2%
Wujiang District	**174,833**	**78.56%**	153,490	74.0%
Suzhou District (excluding Wujiang District)	**16,953**	**7.62%**	27,367	13.2%
Zhejiang Province	**25,368**	**11.40%**	23,243	11.2%
South Zhejiang Province (Taizhou, Zhoushan and Ningbo)	**24,715**	**11.11%**	22,698	10.9%
Jiaxing	**653**	**0.29%**	545	0.3%
Shanghai	**5,389**	**2.42%**	3,310	1.6%
Total	**222,543**	**100.0%**	207,410	100.0%

During the Reporting Period, due to improved sales volume, the sales income and the sales volume of cement products increased as compared to the corresponding period of last year. The sale amount of respective region has generally recorded different extents of increase as compared to the corresponding period of last year.

As to the environmental protection segment, Biofit Group is mainly devoted to niches such as sludge treatment and disposal market, reclaimed water treatment market, and dyeing wastewater treatment market.

MANAGEMENT DISCUSSION AND ANALYSIS

As of 31 December 2016, a total of five projects have been completed or are in progress. Two new projects have been initiated since 1 January 2016. During the Reporting Period, four projects have 100% completed, and one has 68% of its work finished.

Shao Xing Yu Environmental Technology Co., Ltd., a company affiliated to Shanghai Biofit, is a third-party professional operator committed to industrial park environment, with a focus on the professional third-party operation of facilities for wastewater treatment in the dyeing industry, and receives services fees through providing the third-party operation services.

During the Reporting Period, the environmental protection segment achieved turnover of approximately RMB33,371,000. During the period from 30 April 2015 to 31 December 2015, the turnover of the environmental protection segment amounted to approximately RMB15,102,000.

Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit amounted to approximately RMB24,750,000.

As to cement segment, the gross profit amounted to approximately RMB15,302,000, representing an increase of approximately RMB24,336,000 compared to a gross loss of approximately RMB9,034,000 in 2015; while the gross profit margin amounted to approximately 6.9% in 2016, representing an increase of approximately 11.3% compared to approximately -4.4% in 2015. The increase was mainly due to the decrease in cost of equipment maintenance.

As to environmental protection segment, during the Reporting Period, the gross profit amounted to approximately RMB9,448,000, and the gross profit margin amounted to approximately 28.3%. During the period from 30 April 2015 to 31 December 2015, the gross profit was approximately RMB5,164,000 and the gross profit margin was approximately 34.2%.

Other Income

The Group's other income amounted to approximately RMB11,506,000 during the Reporting Period, representing an increase of approximately RMB878,000 or approximately 8.3% compared to approximately RMB10,628,000 in 2015. The increase was mainly due to the increase in subsidies by the government for energy saving and emission reduction, resulting in an increase in government subsidies of approximately RMB1,139,000 as compared to the same period of last year.

Sales and Distribution Expenses

The Group's sales and distribution expenses amounted to approximately RMB2,702,000 during the Reporting Period, representing an increase of approximately RMB939,000 or approximately 53.3% compared to approximately RMB1,763,000 in 2015, which were all generated from cement segment. The increase was mainly due to the increase in sales volume in 2016. Sales and distribution expenses accounted for approximately 1.2% of the consolidated turnover of the cement segment, which has increased slightly as compared to approximately 0.9% in 2015.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately RMB25,400,000 during the Reporting Period.

As to the cement segment, the general and administrative expenses amounted to approximately RMB15,636,000, representing a decrease of approximately RMB229,000 or approximately 1.4% from approximately RMB15,865,000 in 2015. The decrease in the general and administrative expenses was primarily due to the fact that the provision for depreciation of certain fixed assets was completed during the Reporting Period, resulting in a decrease in depreciation charge of approximately RMB1,265,000.

As to the environmental protection segment, during the Report Period, the general and administrative expenses amounted to approximately RMB9,764,000. During the period from 30 April 2015 to 31 December 2015, the general and administrative expenses amounted to approximately RMB6,329,000.

Tax

The Group's income tax expense amounted to approximately RMB1,442,000 during the Reporting Period.

As to the cement segment, the income tax expense amounted to approximately RMB1,698,000 in 2016, representing a significant increase from approximately RMB3,981,000 of income tax credit in 2015, which was primarily attributable to the recorded profit of the Group in 2016.

As to the environmental protection segment, during the Reporting Period, the income tax credit amounted to approximately RMB256,000. During the period from 30 April 2015 to 31 December 2015, the income tax credit was approximately RMB392,000.

Details of the Group's income tax are set out in note 15 to the consolidated financial statements in this annual report.

Net Profit Margin

During the Reporting Period, the Group's net profit margin was approximately 1.6%.

As to the cement segment, the net profit margin was approximately 3.4%, representing a significant increase as compared to approximately -3.8% in 2015. The increase was mainly attributable to the increase in both sales volume and price driven by the improving cement market in the Reporting Period, resulting in an increase from a net loss of approximately RMB7,898,000 in 2015 to a net profit of approximately RMB7,535,000 in 2016.

As to the environmental protection segment, during the Reporting Period, the net profit amounted to approximately RMB768,000, the net profit margin was approximately 2.3%.

During the period from 30 April to 30 December 2015, the net loss amounted to approximately RMB1,144,000, the net profit margin was approximately -7.6%.

Liquidity and Capital Resources

The Group planned to meet its working capital requirements primarily through cash flow from operating activities, bank loans and utilizing trade and other payables, proceeds from initial public offering, and part of the proceeds from the placement of new shares.

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Cash and cash equivalents	**18,949**	52,099
– Cement Segment	**18,860**	51,307
– Environmental Protection Segment	**89**	792
Borrowings	**54,000**	60,000
– Cement Segment	**50,000**	50,000
– Environmental Protection Segment	**4,000**	10,000
Debt to equity ratio	**13.9%**	16.5%
– Cement Segment	**14.8%**	14.9%
– Environmental Protection Segment	**8.0%**	34.4%
Debt to asset ratio	**23.6%**	27.6%
– Cement Segment	**23.1%**	23.8%
– Environmental Protection Segment	**26.6%**	54.3%

Cash Flow

As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB18,949,000.

As to the cement segment, the cash and cash equivalents amounted to approximately RMB18,860,000, representing a decrease of approximately 63.2% from approximately RMB51,307,000 as at 31 December 2015. The decrease was primarily due to increase in trade receivables balances during the credit terms.

Borrowings

	31 December 2016 ***RMB'000***	31 December 2015 *RMB'000*
Current:		
Bank borrowings		
– Cement segment	**50,000**	50,000
– Environmental protection segment	**4,000**	10,000
Bank borrowings	**54,000**	60,000

As at 31 December 2016, the Group's bank borrowings amounted to approximately RMB54,000,000, representing a decrease of approximately 10% from approximately RMB60,000,000 as at 31 December 2015, which was mainly due to the fact that the bank borrowings for environmental protection segment decreased by approximately RMB6,000,000.

As at 31 December 2016 and 31 December 2015, the aforesaid borrowings were not secured, pledged and guaranteed by the Group's properties, plant and equipment, land use rights, bill receivables and restricted bank deposits. As at 31 December 2016, bank borrowings of approximately RMB4,000,000 (31 December 2015: approximately RMB5,000,000) was secured by personal guarantees provided by the Director, Mr. Ling Chao and his close family member.

As at 31 December 2016, the Group had no unutilised bank financing facilities.

Debt to Equity Ratio

As at 31 December 2016, the Group's debt to equity ratio was 13.9%.

Among others, the debt to equity ratio of the cement segment was 14.8%, which remained in line with 14.9% as at 31 December 2015.

As to the environmental protection segment, the debt to equity ratio was 8.0%, representing a decrease from 34.4% as at 31 December 2015. The decrease was mainly attributable to the decrease in liabilities as a result of the repayment of bank borrowings.

The debt to equity ratio is calculated by dividing the borrowings by the difference between total assets and total liabilities.

Capital Expenditure and Capital Commitments

The Group's capital expenditure amounted to approximately RMB2,975,000 in 2016.

Among others, the capital expenditure of the cement segment amounted to approximately RMB2,973,000, representing a significant decrease from approximately RMB45,866,000 in 2015, which was primarily due to the capital expenditure of approximately RMB30,254,000 for the acquisition of Shanghai Biofit by the Group on 16 February 2015. As to the environmental protection segment, the capital expenditure amounted to approximately RMB5,079,000 during the period from 30 April 2015 to 31 December 2015. During the Reporting Period, the capital expenditure of the environmental protection segment amounted to RMB2,000.

As at 31 December 2015, the Group did not have any material capital commitments.

As at 31 December 2016, the Group did not have capital commitments.

Pledge of Assets

As at 31 December 2016, the Group did not pledge any assets during the Reporting Period.

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Foreign Currency Risk

The Group conducted its business primarily in mainland China with the majority of its operating expenses and capital accounts denominated in Renminbi, and a small amount denominated in Hong Kong dollars. Foreign exchange debts were primarily a result of the Group's payment of offshore intermediary fees. During the Reporting Period, the Group was not materially affected in operating business and working capital due to fluctuations in foreign exchange rates.

During the Reporting Period, the Group did not expose to any currency exchange risks, nor did the Group implement any hedging measures for such risks.

As Renminbi is not a freely convertible currency, the future exchange rates of Renminbi could vary significantly from the current or historical exchange rate levels as a result of any controls that the PRC government may impose. The exchange rates may also be affected by economic development and political changes in mainland China and/or internationally, as well as the demand and supply of Renminbi. The management will closely monitor its foreign exchange exposure and will consider taking appropriate measures on hedging foreign currency exposure when necessary.

Substantial Acquisitions and Disposals of Subsidiaries and Associated Companies

During the Reporting Period, the Group did not conduct any material acquisitions or disposals of other subsidiaries or associated companies, except for the capital increase stated below.

As disclosed in the announcements of the Company dated 7 March 2016 and 8 March 2016 regarding the connected transaction in relation to the Capital Increase Agreement and deemed disposal, Shanghai Dong Xi, Xi Hua Shanghai and Shanghai Biofit entered into the Capital Increase Agreement on 7 March 2017(after trading hours), pursuant to which Shanghai Dong Xi agreed to make a capital contribution of RMB20,000,000 to Shanghai Biofit. Approximately RMB7,350,000 would be contributed to the registered capital of Shanghai Biofit, and the remaining of approximately RMB12,650,000 will be contributed to the capital reserve of Shanghai Biofit. As at the date of this annual report, the Capital Increase was completed and Shanghai Biofit is held as to approximately 62.26% by Xi Hua Shanghai and 37.74% by Shanghai Dong Xi, respectively. The registered capital of Shanghai Biofit increased from approximately RMB12,120,000 to approximately RMB19,470,000. For further details of the aforesaid Capital Increase, please refer to the announcements of the Company dated 7 March 2016 and 8 March 2016.

Dividend

The Board does not recommend payment of any final dividend for the year ended 31 December 2016.

Employees and Remuneration Policies

As at 31 December 2016, the Group has a total of 254 employees. The total remuneration amounted to approximately RMB16,235,000 during the Reporting Period. The remuneration levels of employees are commensurate with their responsibilities, performance and contributions and set on the basis of their merits, qualification and competence as well as the opinions from the Remuneration Committee of the Company (if applicable).

Future Prospects

In 2017, the Group will continue to reduce costs in an effective manner through improving its internal control; expand market share and increase profitability of our products by refining customer services; continue to conduct prudent research and promote the businesses in environmental protection field; and make attempts in capital operation to enhance operating efficiency and improve overall competitiveness.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Xie Yingxia (謝鶯霞), aged 40, is the Chairman and an executive Director, responsible for the overall planning and budget management of the Group. Ms. Xie also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Xie obtained a bachelor degree in investment economics from Fudan University (復旦大學) and a master degree in business administration from China Europe International Business School (中歐國際工商學院), an accredited institution authorized by the PRC Ministry of Education to grant the said degree. Ms. Xie has extensive experience in financial management. From 1998 to 2001, Ms. Xie had worked for Xiamen International Bank as the account manager and the deputy head of the credit department, responsible for marketing, running account credit and account services. Subsequently from 2001 to 2008, Ms. Xie had worked for Orient Holdings Group Limited ("Orient Holdings"), an investment holding company, as the manager of the investment department, the chief financial officer and the vice president, responsible for evaluation and management of project investment, financial management, human resources and administrative matters, etc. Since joining our Group in July 2008, Ms. Xie has been serving as a Director of the Company and was responsible for formulating annual budget, business plan, long term/strategic development of the Company and monitoring the implementation, conducting internal audit as well as reviewing and monitoring the performance of our senior management. Ms. Xie has served as authorized representatives of the Company since 28 May 2015 (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange).Through active involvement in daily operation and management of the Company, Ms. Xie gained specific knowledge and experience in cement industry. Ms. Xie did not hold any directorship in any other listed companies in the past three years.

Mr. Ling Chao (凌超), aged 38, is an executive Director. Mr. Ling, is the chairman of Biofit since 1 April 2003. He has extensive experience in the financial and investment sectors and held senior position in investment, finance and risk management industries. Mr. Ling obtained his bachelor degree in management accounting from Xi'an University of Technology in 2001; master degree in industrial economics from Fudan University in 2004; master degree in finance from Arizona State University USA in 2009 and EMBA degree from Tsinghua University in 2013. Mr. Ling also qualifies as a financial controller. Mr. Ling has not held any other directorships in listed public companies in the last three years.

Mr. Peng Cheng (彭程), aged 34, was appointed as an executive Director on 17 October 2016. He is also directors of certain subsidiaries of the Company. Mr. Peng completed a Bachelor of Commerce/Bachelor of Information Systems double degrees from the University of Melbourne in 2004. In addition to his Chartered Financial Analyst designation, he is also a member of The Institute of Chartered Accountants in Australia. Mr. Peng has extensive experience in corporate strategy, corporate finance and financial advisory. Prior to joining the Company, he worked in a global institutional bank as an associate director responsible for advising on cross border merger and acquisition transactions as well as ancillary financing and risk management. Mr. Peng had also previously worked in a large listed company in Australia during 2009 to 2012 focusing on corporate development and strategy, as well as a global investment bank during 2006 to 2008 focusing on investment analysis.

Mr. Wong Hin Shek (王顯碩), aged 47, was appointed as an executive Director on 14 November 2016. He obtained a Bachelor of Commerce degree from the University of Toronto in Canada and a Master of Science degree in Financial Management from the University of London in the United Kingdom. Mr. Wong has over 23 years of experience in the investment banking industry. He has been involved in the management, business development and strategic investment of listed companies in Hong Kong, having operations in environmental protection, hotel, and manufacturing industries. Mr. Wong is the responsible officer of Veda Capital Limited, a licensed corporation which carries out Type 6 (advising on corporate finance) regulated activity under the SFO. He is currently the chairman and an executive director of DeTai New Energy Group Limited (stock code: 559). Mr. Wong is also an executive director of Bisu Technology Group International Limited ("Bisu Technology Group", formerly known as "Excel Development (Holdings) Limited", stock code: 1372). He was appointed as the chief executive officer of Bisu Technology Group but ceased to act as its chairman of the board of directors with effect from 1 March 2017. Mr. Wong was re-designated as non-executive director from executive director and ceased to act as chairman of the board of directors of Sino Golf Holdings Limited (stock code: 361) in November 2016. He was also an executive director of KuangChi Science Limited (formerly known as "Climax International Company Limited", stock code: 439) from June 2007 to August 2014. The shares of these companies are listed on the Main Board of the Stock Exchange.

Mr. Wang Jun (汪俊), aged 35, was appointed as an executive Director on 14 November 2016. He is also directors of certain subsidiaries of the Company. Mr. Wang graduated from Chongqing Normal University majoring in Finance. He has extensive experience in public relations, leadership, management and business development strategies. Mr. Wang held senior management positions in various private companies. He was an executive director of Enterprise Development Holdings Limited (stock code: 1808), the shares of which are listed on the Main Board of the Stock Exchange, from January 2014 to November 2016.

Non-Executive Directors

Mr. Tseung Hok Ming (蔣學明), aged 55, is a non-executive Director. Mr. Tseung possesses over 25 years of experience in business and investment. Mr. Tseung has been a director of Orient Financial Holdings Limited since July 2002, a director of Far East International since March 2004, a director of Orient International Petroleum & Chemical Limited since December 2004, a director of Sunshine Oilsands Limited, a company listed on the Stock Exchange (stock code: 02012) since March 2010, a director of Orient International Resources Group Limited since April 2010, a director of Jiangsu Xinmin Textile Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002127) since 4 September 2013 and a director of Fidelix Co., Ltd., a company listed on KOSDAQ (stock code: 032580) since 30 June 2015.

Mr. Tseung began his career in 1986 as a director of a factory in Jiangsu City and was responsible for overseeing textile manufacturing and trading. In 1996, he established Orient International Group (HK) Limited, a company principally engaged in textile trading and investment business, and managed the business as a director until 2005. In 1995, Mr. Tseung invested into Wujiang Yuan Tong Highway Construction and Development Limited, a company principally engaged in highway construction and operations management business. He has acted as its vice chairman since 1995, and has been responsible for its investment and construction business. In 2003, Mr. Tseung invested in Anhui Hefei-Caohu-Wuhu Highway Limited, which principally engaged in the business of highway construction and maintenance, and acted as its chief representative until 2005. In June 2003, Mr. Tseung invested in the Company, whose main business scope is manufacture and sales of clinker and cement.

Mr. Tseung acted as a director of the second session of the board of directors of China Foreign Affairs University since 2005. Mr. Tseung is currently a vice chairman of the Hong Kong Financial Services Institute and the Hong Kong China Education Fund. Mr. Tseung graduated from the Chinese Academy of Social Sciences (中國社會科學院) in 1998 majoring in International Trading. Save as disclosed above, Mr. Tseung did not hold any directorship in any other listed companies in the past three years.

Independent Non-executive Directors

Mr. Cao Guoqi (曹國琪), aged 54, is an independent non-executive Director. Mr. Cao specializes in project investment, finance and management, fund operation and management, mergers and acquisitions, assets and capital operations, human resources management and project consultation. Mr. Cao obtained a doctoral degree in political economics from Shanghai Academy of Social Sciences (上海社會科學院) in 2004. Mr. Cao has been the MBA supervisor in Shanghai Advanced Institute of Finance, Shanghai Jiaotong University (上海交通大學 上海高級金融學院) since December 2011, the part-time professor of Hunan University (湖南大學) since April 2008, the consultant to the government of Dongli District of Tianjin Municipality (天津市東麗區政府顧問) since March 2010, the executive director and general manager of Probest Limited in Hong Kong, the executive director and general manager of Master Energy INC in Hong Kong, and was appointed as the general manager of Shanghai Lingang New City Investment and Development Co., Ltd. (上海臨港新城投資開發集團有限公司) from April 2002 to April 2005. Mr. Cao is also an independent non-executive director of Shanghai Jiaoda Withub Information Industrial Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8205). Mr. Cao is also an independent director of Jinyu Bio-Technology Co., Ltd. (金宇生物技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600201). Mr. Cao serves as an executive director of China Smartpay Group Holdings Limited, a company listed on the Stock Exchange (stock code: 8325) since 18 September 2013. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years

Mr. Cao Kuangyu (曹貺予), aged 67, is an independent non-executive Director. Mr. Cao has over 30 years of experience in the banking industry. Mr. Cao graduated from Hunan University in 1981 with a bachelor degree in economics, and obtained his master's degree in financial management from the University of London in 1998. Mr. Cao worked in the Bank of China, Hunan branch as a director and senior management from 1981 to 1996 and his last position was the deputy general manager of the branch. In 1996, Mr. Cao was transferred to the Singapore branch of Bank of China as deputy general manager until 1999. Mr. Cao worked in Citic Bank, Shenzhen branch from 1999 to 2003 and his last position was the president of the branch. Mr. Cao came to Hong Kong in 2003 when he worked as a managing director and head of global investment banking division of BOCI Asia Limited until 2007.

Mr. Cao served as an independent non-executive director of Simsen International Corporation Limited (stock code: 00993) from April 2010 to June 2010. Mr. Cao also served as an independent non-executive director of King Stone Energy Group Limited (stock code: 00663, formerly known as Yun Sky Chemical (International) Holdings Limited) from February 2010 to April 2012. Mr. Cao also served as a non-executive director of Continental Holdings Limited (stock code: 00513) from April 2010 to December 2011. Mr. Cao is currently an independent non-executive director of JLF Investment Company Limited (stock code: 00472, formerly known as Applied (China) Limited), Huili Resources (Group) Limited (stock code: 01303), Junefield Department Store Group Limited (stock code: 00758) and Dingyi Group Investment Limited (stock code: 00508). All the aforesaid companies are listed on the Stock Exchange. Save as disclosed above, Mr. Cao did not hold any directorship in any other listed companies in the past three years.

Mr. Lee Ho Yiu, Thomas (李浩堯), aged 39, is an independent non-executive Director. Mr. Lee has extensive experience in auditing, accounting and financial management. Mr. Lee is currently a partner of Messrs. Lee, Au & Co., Certified Public Accountants. Mr. Lee previously worked as an assistant financial controller in a multinational luxury brands group and worked at one of the big four international accounting firms. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants, a practicing member of the Hong Kong Institute of Certified Public Accountants, a certified tax advisor and member of the Hong Kong Taxation Institute, a certified internal auditor of the Institute of Internal Auditors and a certified information systems auditor of the ISACA. Mr. Lee holds a bachelor's degree in science from the University of Warwick and a second bachelor's degree in Chinese law from Tsinghua University (清華大學) in Beijing. Mr. Lee currently acts as an independent non-executive director of SunCorp Technologies Limited (Stock Code: 1063) and Sino Energy International Holdings Group Limited (formerly known as Active Group Holdings Limited, Stock Code: 1096), which were listed on the main board of the Stock Exchange of Hong Kong. He is an independent non-executive director of Inno-Tech Holdings Limited (Stock Code: 8202), which was listed on the Growth Enterprise Market of Stock Exchange. Save as disclosed above, Mr. Lee did not hold any directorship in any other listed companies in the past three years.

Senior Management

Mr. Jin Chungen (金春根), aged 55, is the Chief Executive Officer of the Company (Mr. Jin resigned as an executive Director of the Company on 14 November 2016), responsible for the Group's general operation. Mr. Jin has extensive experience in cement related industries such as highway operation, maintenance and renovation, etc. From 1995 to 2005, Mr. Jin had been the general manager of Wujiang Yuan Tong Road Construction and Development Co., Ltd. (吳江遠通公路建設發展有限公司), a company principally engaged in the operation and toll collection of the National Highway Road No. 318 (Wujiang Section), responsible for the company's day-to-day management such as operation of toll roads, daily maintenance and renovation of roads, human resources, financial and administrative matters, etc. During the said period, Mr. Jin was heavily involved in the operation of toll highways as well as maintenance and renovation of roads, and since the operation, maintenance and renovation of roads involve substantial use of, inter alia, cement, Mr. Jin has also gained specific knowledge and experience in cement. Mr. Jin also possesses over 34 years of experience in corporate management. Between 1979 and 1990, Mr. Jin had worked for Jiangsu Orient as an officer and supervisor, responsible for the company's daily operational and management affairs. Subsequently from 1991 to 1994, Mr. Jin had served as a general manager for Wujiang Fuyuan Garment Co., Ltd (吳江富源製衣有限公司), a company principally engaged in the garment processing, responsible for the company's overall management. Since joining our Group in January 2007, Mr. Jin has served as the Director, chairman and general manager, respectively, of the Company, and is responsible for the management of the Company's daily operation, such as making production plan, raw materials procurement and sales etc. On 11 September 2013, Mr. Jin resigned as general manager of Suzhou Dongwu, but remained as chairman and legal representative of Suzhou Dongwu. Currently, Mr. Jin is the vice chairman of the Cement Committee (the third session) of Jiangsu Province Building Material Industry Association (江蘇省建材行業協會第三屆水泥分會). Mr. Jin did not hold any directorship in any other listed companies in the past three years. Besides, Mr. Jin resigned as an executive Director of the Company and ceased to be an authorized representative of the Company with effect from 14 November 2016 as he would like to devote more time on his other businesses in Jiangsu Province. Mr. Jin will remain as the chairman of Suzhou Cement Co., Ltd, a wholly owned subsidiary of the Company. Mr. Jin will remain as the Chief Executive Officer of the Company in the interim until the Company finds a suitable replacement.

Mr. Wu Junxian (吳俊賢), aged 36, is the general manager of Suzhou Dongwu. Mr. Wu is responsible for human resources, internal control and procurement of the Group. Mr. Wu joined our Group in March 2009, and has held various positions in Suzhou Dongwu such as assistant to general manager and deputy general manager. Mr. Wu assumed the title of general manger of Suzhou Dongwu on 11 September 2013. Prior to joining our Group, Mr. Wu worked for Orient Holdings, an investment holding company, as an officer of the assets management department, responsible for project research and development from 2003 to 2007. Mr. Wu subsequently worked for Shanghai Keli Communications Technology Co., Ltd. (上海科立通訊科技有限公司), a company principally engaged in communication construction and services, as a project manager and was responsible for project development and customer service from 2007 to 2009. Mr. Wu graduated from Nanjing Audit University (南京審計學院) in 2003 with a bachelor degree in management administration.

Mr. Feng Bing Song (馮炳松), aged 48, is the deputy general manager of Suzhou Dongwu. Mr. Feng is responsible for marketing and sales of the Group. Prior to joining to the Group in December 2014, Mr. Feng, having been engaged in the finance matters and sales in the cement industry for about 20 years, has a knowledge of market trends and possesses extensive experience in sales. Mr. Feng once served as the financial controller of Piaoyang Orient Cement Company (漂陽東方水泥公司) and then was promoted to the deputy general manager, in charge of corporate finance and business planning. Later, Mr. Feng joined in Wujiang Xingyuan Cement Co., Ltd. as the vice president of sales responsible for making the strategic plans for the Group.

Ms. Cai Linfen (蔡林芬), aged 46, is the deputy general manager of Suzhou Dongwu. Ms. Cai is responsible for production of the Group. Ms. Cai possesses more than 25 years of experience in production management of cement. She has served as deputy general manager of Zhejiang Tongxing Cement Company Limited (浙江桐星水泥股份有限公司) and Tongxiang South Cement Company Limited (桐鄉南方水泥有限公司) before and was responsible for production respectively. Ms. Cai joined the Group in 2014, and had taken the position of chief engineer and deputy general manager etc. Ms. Cai graduated from Tongxiang Radio and TV University (桐鄉廣播電視大學) in 2013 and obtained a college degree in Management.

Company Secretary

Ms. Sun Xin (孫馨), aged 33, was appointed as the joint company secretary of the Company on 28 May 2012, and acted as the company secretary of the Company since 21 March 2014 and has been the chief financial controller of the Company since 16 August 2013. Ms. Sun also served as the authorized representative of the Company (for the purpose of Rule 3.05 of the Listing Rules of the Stock Exchange). Ms. Sun joined the Group in August 2010. From August 2006 to August 2010, Ms. Sun acted as the senior consultant of the business advisory and tax consultancy department of Deloitte Touche Tohmatsu CPA Ltd. During the office term, Ms. Sun was responsible for the provision of due diligence service and structuring support to the foreign multi-national companies and the private equity funds concerning acquisition activities in the PRC, as well as the provision of tax consultancy services, including international tax consultancy, indirect tax consultancy, general domestic tax consultancy and tax standardization. From September 2002 to July 2006, Ms. Sun studied at Shanghai International Studies University (上海外國語大學) majoring in international economic law and obtained a bachelor degree in law. From September 2003 to June 2005, she studied at Shanghai University of Finance and Economics (上海財經大學) and obtained the Certificate for Second Major (輔修專業證書) in Accounting. Ms. Sun is currently a member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會), an associate of the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) (ACS), and an associate of the Institute of Chartered Secretaries and Administrators(ACIS).

DIRECTORS' REPORT

Principal Activities

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 November 2011. The Group mainly operates through its subsidiaries in the PRC. The Group is principally engaged in the production and sales of cement and clinker, as well as sludge disposal, reclaimed water treatment, and dyeing wastewater treatment. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

Results and Dividends

The Group's results for the year ended 31 December 2016 are set out in the Consolidated Statement of Comprehensive Income on page 74.

The Board does not recommend payment of any final dividend for the year ended 31 December 2016.

Business Review

A review of the business of the Group for the year ended 31 December 2016, a discussion on the Group's future prospects, and an account of the principal risks and uncertainties facing the Group are provided in "Management Discussion and Analysis" in pages 10 to 18 in this annual report, an analysis of the Group's performance during the Reporting Period using key performance indicators are provided in "Financial Highlights" in pages 5 to 6 in this annual report.

Environmental Policy and Performance

The Group has not only attached importance to the improvement of the production technology to enhance its own market competitiveness, but also has strong social responsibility. It emphasizes on environmental protection, beauty, greening and the comprehensive utilization of resources, bearing the concept that building a harmonious factory is its always goal, and proactively driving the performance of energy-saving and emission reduction as well as the sustainable development.

In order to strengthen environmental protection, strictly control the arising of pollutant and comprehensively achieve the emission standard, the Group invested in more than 10 million on upgrading technology for environmental protection facilities and energy-saving and emission reduction projects in 2015. The Group implemented energy conservation and emissions reduction from several aspects, such as filter improvement and dust emissions deduction; improved denitration device to reduce nitrogen oxide emissions; built large water pool to save water resources; constructed loop water treatment and purification equipment to no longer use tap water; and equipped with muffler and sound barriers to further weaken the noise.

The Group made strong emphasis in cycle economy to drive cleaner production and conduct comprehensive utilization of resources. The Group has a capacity of digestion and save of coal ash, flue gas desulfurization gypsum and tailings more than 0.1 million tones every year. The Group also actively assisted the local government to dispose of urban domestic sludge and solid waste projects. The Group is confident of transition to green environmental protection enterprise with cycle economy. At the meantime, the Group will comprehensively promote the pure low-temperature residual heat power generation technology in NSP kilns to achieve energy-saving and cost-reducing by technical transformation, so as to reduce production cost and improve the efficiency of the enterprise.

Compliance of Laws and Regulations

The Company is aware of the importance of complying with the relevant laws and regulations. The Company has distributed human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication. During the Reporting Period, to the knowledge of the Directors, the Company has complied with SFO, Listing Rules and all other relevant legislations and regulations which have significant impacts on the Company.

Important Relationship with Employees, Clients and Suppliers

The relationships between the Group and employees, clients and suppliers have a material impact on our business and constant development. Therefore, the Group has established good and stable relations with employees, customers and suppliers.

The Group regards its employees as the most important and valuable assets. The objective of human resources management is to motivate outstanding staffs with competitive remuneration package and comprehensive performance assessment, and assist the staff to develop their career and get promotion in the Group by providing suitable training and opportunities. Through a variety of incentive mechanism and organizing various activities, the Company has formed an enterprise culture that comprising able person should do more work, more pay for more work, competition out who ever needs upward, unity and harmony and innovation. The Group encouraged employees to actively participate in the management of the enterprise, to adopt reasonable suggestion, promote all staff to treat plant as home, be proud of the factory, and give full play to the staff's enthusiasm and subjective initiative.

The Group has always adhered to the principle of customer first, and identified the customer's demand and improved customer satisfaction by customer information collection, analysis and processing. For consultation with customer by way of interviewing, letter, telephone, fax and so on, there is specially-assigned person to answer, record and collect. Through a variety of activities, the Company grasped the market dynamics and customer requirements timely. If found customer complaints, suggestions for improvement, implicit requirements or expectations, feedback immediately to the relevant departments, making necessary improvement measures and implementation, to ensure the increment of the customer satisfaction.

The Group established cooperation relationship and mutual benefits and win-win with its suppliers, and jointly explore the market to expand market demands and share and reduce operating cost of the early stage of the product through the integration of resources and competitive advantages. The Group clear procurement requirements and exchange information to make the transparency of the procurement process, improve the efficiency of supply chain and the reaction ability and therefore maximize the interests on both sides.

DIRECTORS' REPORT

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 16 May 2017 to Friday, 19 May 2017 (both days inclusive), during which period no transfer of shares will be registered. For determining Shareholders' entitlement to attend and vote at the annual general meeting to be held on Friday, 19 May 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 15 May 2017 (Hong Kong time).

Property, Plant And Equipment

Details of movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statement of this annual report.

Bank Loans And Other Borrowings

Details of bank loans and other borrowings are set out in note 29 to the consolidated financial statement of this annual report.

Share Capital

As at 31 December 2016, the authorised share capital of the Company was HK$100,000,000 divided into 10,000,000,000 Shares including issued capital of HK$5,520,000 divided into 552,000,000 Shares with nominal value of HK$0.01 per share. During the Reporting Period, the Company has not issued any new Shares.

Reserves

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity of this annual report.

Distributable Reserves

The Group's reserves available for distribution to Shareholders was approximately RMB45,404,000 (31 December 2015: approximately RMB36,769,000) as at 31 December 2016.

Public Float

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the prescribed minimum percentage of public float approved by the Stock Exchange and permitted within the Listing Rules as of the Latest Practicable Date.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of the Company or applicable laws of the Cayman Islands where the Company was incorporated.

Tax Reduction

Pursuant to the laws of the Cayman Islands, the Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations by virtue of their interest in the Shares and there is no taxation in the nature of inheritance tax and estate duty.

Charge on The Assets and Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities, guarantees or any litigation against the Group (2015: nil).

Subsidiaries and Associates

Details on the business performance of the Company's major subsidiaries and associates respectively are set out in notes 20 and 21 to the consolidated financial statement of this annual report.

Directors

The directors of the Company during the year ended 31 December 2016 and up to the date of this annual report were as follows:

Chairman and Executive Director	Ms. Xie Yingxia
Chief Executive Officer and Executive Director	Mr. Jin Chungen *(note 1)*
Executive Directors	Mr. Ling Chao
	Mr. Peng Cheng *(note 2)*
	Mr. Wong Hin Shek *(note 3)*
	Mr. Wang Jun *(note 3)*
Non-executive Director	Mr. Tseung Hok Ming
Independent Non-executive Directors	Mr. Cao Guoqi
	Mr. Cao Kuangyu
	Mr. Lee Ho Yiu Thomas

note 1 *Mr. Jin Chungen resigned as an executive Director on 14 November 2016 but remains as the Chief Executive Officer of the Company.*

note 2 *Mr. Peng Cheng was appointed as an executive Director on 17 October 2016.*

note 3 *Mr. Wong Hin Shek and Mr. Wang Jun were appointed as executive Directors on 14 November 2016.*

There is no financial, business, family or other material/relevant relationship amongst the Directors.

Independence

The Company has received from each of the independent non-executive Directors (namely Mr. Cao Guoqi, Mr. Cao Kuangyu and Mr. Lee Ho Yiu Thomas) an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all of the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and is independent in accordance with the terms of the guidelines.

Emolument Policy and Long-Term Incentive Plan

The Company adopts different emolument policies for executive Directors and non-executive Directors:

Emolument Policy for Executive Directors

1. A proportion of executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.
2. The performance-related elements of remuneration should be designed to align the executive Directors' interests with those of Shareholders and to give the Directors incentives to perform at the highest levels.
3. Factors for defining performance-based remuneration:
   (a) Eligibility for long-term incentive schemes, e.g. share option schemes, subject to performance criteria which reflect the Company's performance
   (b) Examples of performance indicators:
   (i) share price
   (ii) net earnings figure

Emolument Policy for Non-executive Directors

1. Levels of emolument of non-executive Directors should reflect the time commitment and responsibilities of the role.
2. Non-executive Directors should have the opportunity to have part of their remuneration in shares on condition that share options should be granted in accordance with the Listing Rules.

Principles of Long-Term Incentive Schemes

1. The purpose is to reward exceptional performance, and awards should be scaled against achievement of performance criteria.
2. The link between executive reward and company performance should be strong and clear.
3. Grants under such schemes should be phased rather than awarded in one large block.

The emolument payable to the Directors is determined with reference to their qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar positions. The fees and any other reimbursement or emolument payable to the Directors are set out in details in this annual report.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract or letter of appointment with the Company for a term of three years with effect from their respective dates of appointment unless terminated by not less than three months' notice in writing served by either the executive Director or the Company. All the non-executive Director and the independent non-executive Directors had signed letters of appointments with the Company for a term of three years with effect from their respective dates of appointment unless terminated by not less then three months' notice in writing served by either the non-executive Director and independent non-executive Directors or the Company. The Directors are subject to the provisions of re-election and retirement by rotation under the Articles of Association of the Company.

DIRECTORS' REPORT

In accordance with the Articles of Association of the Company, Mr. Cao Guoqi, Mr. Cao Kuangyu and Mr. Lee Ho Yiu Thomas will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In addition, Mr. Peng Cheng (appointed as an executive Director on 17 October 2016), Mr. Wong Hin Shek (appointed as an executive Director on 14 November 2016) and Mr. Wang Jun (appointed as an executive Director on 14 November 2016), who are newly appointed Directors, are subject to re-election by the Shareholders at the forthcoming annual general meeting.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into any service contract with the Company which is not determinable within one year without payment of compensation (other than statutory compensation).

Directors' Emoluments and Five Highest Paid Individuals of the Company

All of the Directors are entitled to a fee as approved by the Board with reference to the prevailing market conditions. Executive Directors are entitled to fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) or discretionary bonuses, which are determined by the Board having regard to the Group's performance and the prevailing market conditions and approved by the remuneration committee.

Details of Directors' emoluments and emoluments of five highest paid individuals of the Company are set out in note 14 to the consolidated financial statement.

For the years of 2015 and 2016, senior management of the Company comprises 4 and 6 individuals, respectively.

The emoluments of senior management of the Company fell within the following bands:

Emolument band	**Number of individuals Year ended 31 December**	
	2016	2015
Nil to HK$1,000,000	**6**	4

Directors' Material Interests in Transactions, Arrangements or Contracts of Significance

No transaction, arrangement or contract of significance in which the Directors (or an entity connected with a Director) had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the Reporting Period.

Contract of Significance

No contract of significance was entered into between the Company, or any of its subsidiaries and any of the controlling Shareholder or any of its subsidiaries subsisted at the end of the financial year or at any time during the Reporting Period.

Directors' Rights to Acquire Shares or Debentures

At any time during the Reporting Period, none of the Company or any of its subsidiaries was a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their respective spouses or children under the age of eighteen, had any right to subscribe for the interests or debentures of the Company or any other body corporate, or had exercised any such rights.

Directors' Interests in a Competing Business

None of the Directors or controlling Shareholders had interests in business which competes or may compete with the Group's business.

Connected Transactions

During the year ended 31 December 2016, save as the Capital Increase matter set out in "Substantial Acquisitions and Disposals of Subsidiaries and Associated Companies" of the section headed "Management Discussion and Analysis", the Group did not enter into any connected transactions or continuing connected transactions which need to be disclosed in its annual report under Rule 14A.49 of the Listing Rules.

Pension Scheme

The employees of members of the Group in the PRC are members of the state-managed employee benefit scheme (such as pension, medical insurance, occupational injury insurance, unemployment insurance, maternity insurance and housing fund) operated by the PRC government. The Group is required to make contributions to the employee benefit scheme based on certain percentage of the salaries of its employees to fund the benefits.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

During the year ended 31 December 2016, the employee benefit scheme contributions made by the Group amounted to approximately RMB2,869,000.

Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2016, the interests of the Directors, chief executive or their respective associates in the Shares and underlying Shares of the Company and its associated corporations which were required, pursuant to section 352 of the SFO, to be recorded in the register maintained by the Company, or pursuant to the Model Code, had to be notified to the Company and the Stock Exchange are as follows:

Name	Capacity	Long position/ Short position	Number of Shares held	Approximate percentage of shareholding interest
Mr. Tseung Hok Ming *(note 1)*	Interest of a controlled corporation	Long position	297,500,000	53.89%
Mr. Jin Chungen *(note 2)*	Interest of a controlled corporation	Long position	77,500,000	14.04%

notes:

1. *Goldview is wholly-owned by Mr. Tseung Hok Ming, a non-executive Director. Accordingly, Mr. Tseung is deemed to be interested in the same Shares held by Goldview by virtue of Part XV of the SFO. Goldview is also an associated corporation of the Company.*

2. *Concord is wholly-owned by Mr. Jin Chungen, the Chief Executive Officer. Accordingly, Mr. Jin is deemed to be interested in the same Shares held by Concord by virtue of Part XV of the SFO. Mr. Jin Chungn resigned as an executive Director of the Company on 14 November 2016 but remains as the Chief Executive Officer of the Company.*

Save as disclosed in the above, as at 31 December 2016, so far as is known to the Directors, no Directors or chief executive of the Company or their respective associates had or were deemed to have any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations by virtue of part XV of the SFO which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which, pursuant to the Model Code, had to be notified to the Company and the Stock Exchange.

As at 31 December 2016, none of the Directors and chief executive of the Company (including their respective spouses and children under the age of 18) had or were granted any rights to subscribe for the securities and share options of the Company and its associated corporations, nor had they exercised any such rights.

Interests and Short Positions of Substantial Shareholders in the Shares and Underlying Shares

As at 31 December 2016, so far as is known to the Directors, the person(s), not being the Directors or chief executive of the Company, who had any interests or short positions in the Shares and underlying Shares required to be recorded in the register kept under section 336 of the SFO are set out below:

Name	Capacity	Long position/ Short position	Number of Shares held	Approximate percentage of shareholding interest
Goldview[1]	Beneficial owner	Long position	297,500,000	53.89%
Concord[2]	Beneficial owner	Long position	77,500,000	14.04%

Notes:

1. *Goldview is wholly-owned by Mr. Tseung Hok Ming, a non-executive Director. Accordingly, Mr. Tseung is deemed to be interested in the same Shares held by Goldview by virtue of part XV of the SFO.*

2. *Concord is wholly-owned by Mr. Jin Chungen, the Chief Executive Officer. Mr. Jin Chungen resigned as an executive Director on 14 November 2016 but remains as the Chief Executive Officer of the Company. Accordingly, Mr. Jin is deemed to be interested in the same Shares held by Concord by virtue of part XV of the SFO.*

Save as disclosed in the above, as at 31 December 2016, so far as is known to the Directors, no other persons had any interest or short position in the Shares and underlying Shares which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

Share Option Scheme

On 28 May 2015 ("Adoption Date"), the Company adopted a share option scheme (the "Share Option Scheme"), which was approved at the annual general meeting of the Company held on the same date. The Share Option Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary of the Adoption Date (the "Share Option Scheme Period"), after which period no further options shall be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects in respect of the options remaining outstanding and exercisable on the expiry of the Share Option Scheme Period.

The purpose of the Share Option Scheme is to provide person(s) and parties working for the interests of our Group with an opportunity to obtain an equity interest in the Company, thus linking their interests with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

Pursuant to the terms of the Share Option Scheme, the Board shall have the right to determine and select all directors (whether executive or non-executive and whether independent Director or not), any employee (whether full time or part-time), any consultant or adviser of or to the Company or the Group (whether an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group ("Eligible Persons") to whom the options may be granted. The eligibility of any of the Eligible Persons to an offer for the grant of options under the Share Option Scheme shall be determined by the Board from time to time on the basis of the contribution to the development and growth of the Group.

Unless otherwise determined by the Board in the relevant offer letter to a grantee, there is no minimum period for which any option must be held before it can be exercised and no performance target which need to be achieved by the grantee before it can be exercised. The maximum number of shares which may be issued pursuant to the Share Option Scheme on the Adoption Date will be 55,200,000 Shares, which represents 10% of the issued share capital of the Company as at the date of approval of the proposed adoption of Share Option Scheme by the Shareholders at the AGM held on 28 May 2015 and represents 10% of the total issued share capital of the Company as at the date of this report.

The maximum number of Shares which may be issued upon exercise of all options granted under the Share Option Scheme or any other share option schemes that the Company adopts must not exceed 30% of the Shares of the Company in issue from time to time. Any option lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the scheme mandate limit. Unless approved by Shareholders in general meeting, the total number of Shares issued and to be issued upon grant of options by each under the Share Option Scheme in any 12-month period must not exceed 1% of the Shares of the Company in issue at such time.

Subject to any condition or restriction in connection with the exercise of the option which may be imposed by the Board when granting the option and other provisions of the Share Option Scheme, there is no minimum period for which an option must be held before it can be exercised and the option may be exercised by the Grantee (or his or her legal personal representative) at any time during the option period (the option period shall not be more than ten years from the grant date). All of the outstanding options shall lapse if the option period expires, the holders loss of office or cease to be the member of the Group.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option, duly signed by the Eligible Person, together with the remittance of HK$1 in favor of the Company, irrespective of the number of Shares in respect of which the Option is accepted, as consideration for the grant is received by the Company.

The subscription price (the "Subscription Price") in respect of any particular option shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

No options under the Share Option Scheme have been granted and no options remain outstanding and unexercised during the year ended 31 December 2016.

As of the Latest Practicable Date, the remaining life of the Share Option Scheme is about 8 years and 1 month.

Purchase, Sale or Redemption of Listed Securities

The Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the Reporting Period.

Management Contracts

Save for labor contracts, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2016 is as follows:

	Percentage of the Group's total sales (%)		Percentage of the Group's total purchases (%)
The largest customer	17.2	The largest supplier	22.2
Five largest customers in aggregate	41.2	Five largest suppliers in aggregate	52.0

None of the Directors or their associates or any Shareholder holding more than 5% equity interest in the Company had any interest in any of the Group's five largest customers or five largest suppliers.

Auditor

The consolidated financial statements of the Company for the year ended 31 December 2016 have been audited by BDO Limited ("BDO"), who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution on re-appointment of BDO as the external auditor of the Company will be proposed at the forthcoming annual general meeting for Shareholders' approval.

Material Litigation and Arbitration

Save as disclosed in the Prospectus, so far as is known to the Directors, the Group was not involved in any litigation, arbitration or claims of material importance and there was no litigation or claims of material importance to be pending or threatened by or against the Company during the Reporting Period.

Events after the Reporting Period

On 26 January 2017, the Group fully disposed of its available-for-sale financial assets for a cash consideration of RMB8,000,000, giving rise to a gain before tax of approximately RMB5,102,000 recognised in the consolidated comprehensive income statement of the Company.

On 1 March 2017, Suzhou Dongwu, a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement with Dongfang Jiujiu, pursuant to which the parties agreed to establish a joint venture company ("JV Company") with a registered capital of RMB50,000,000. Upon completion of the Joint Venture Agreement, the JV Company will be owned as to 48% and 52% by Suzhou Dongwu and Dongfang Jiujiu, respectively.

Dongfang Jiujiu is a connected person of the Company and the entering into of the Joint Venture Agreement with the connected person for the establishment of the JV Company constituted a connected transaction on the part of the Company under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 1 March 2017.

Save for the above, the Group had no major events after the Reporting Period subsequent to 31 December 2016.

DIRECTORS' REPORT

Permitted Indemnity Provisions

The Articles of Association of the Company provide that the Directors shall be indemnified and secured harmless out of the assets of the Company from and against all losses or liabilities which they incur or sustain as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted. The Company has taken out and maintained directors' liability insurance which provides appropriate coverage for the Directors and directors of the subsidiaries of the Company.

Changes In Information Of Directors

During the Reporting Period and up to the date of this annual report, the updated information of Directors required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules are set out below:

Name of Directors	Details of the Changes
Mr. Peng Cheng	Appointed as director of certain subsidiaries of the Company on 15 November 2016
Mr. Wang Jun	Appointed as director of certain subsidiaries of the Company on 15 November 2016
Mr. Wong Hin Shek	Appointed as the chief executive officer of Bisu Technology Group but ceased to act as its chairman of the board of directors with effect from 1 March 2017 and remains as executive director

Chairman
Xie Yingxia

28 March 2017

Compliance with the Corporate Governance Code

The Company is committed to achieving and maintaining high standards of corporate governance. The Board believes that effective corporate governance and disclosure practices are not only crucial to the enhancement of the Company's accountability and transparency and investor confidence, but also critical to the Group's longterm success. The Company has adopted the code provisions in the Corporate Governance Code contained in Appendix 14 of the Listing Rules as its own code on corporate governance.

During the Reporting Period and up to the Latest Practicable Date, the Company has complied with the provisions of the Corporate Governance Code, saved as the deviations (with reasons for deviation) disclosed in this report.

Code Provision A.1.1

Code Provision A.1.1 stipulates that board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the Reporting Period, the Board held 2 regular meetings. The Board considers that during the Reporting Period, the Group had no significant matters which required to convene formal Board meetings for discussion. Nevertheless, the Board maintains good communications with each Director through other informal means and ensures that each Director is updated with the latest developments of the Group in a timely manner. The Board also holds provisional meetings to review, discuss and decide specific matters related to the development and strategy of the Group as and when required. During the Reporting Period, the Board held 2 provisional meetings for the purposes of approving (among other matters) the appointments of Mr. Peng Cheng, Mr. Wong Hin Shek and Mr. Wang Jun as executive Directors.

Compliance with the Model Code

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiries, all Directors confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

Board of Directors

Duties and Divisions

The Board acts for the interest of all Shareholders and is responsible for the general meeting. The Board is mainly responsible for executing the resolutions of the general meeting, overseeing and supervising all material matters of the Company, including developing and approving the overall strategy for management and operation, operation plan and investment proposals, reviewing organization structure, the systems of internal control and risk management and the financial performance regularly, determining dividend policies, developing, reviewing and monitoring policies and practices on corporate governance of the Company and the code of conduct applicable to employees and Directors, reviewing and monitoring the training and continuous professional development of Directors and senior management, policies and practices of the Company on compliance with legal and regulatory requirements, reviewing the Company's compliance with the code and disclosure in the Corporate Governance Report, monitoring operational activities and performance of senior management, so as to protect and enhance the interests of the Company and its Shareholders. In respect of overseeing specific aspects in the Company's affairs, the Company has established 3 committees of the Board, i.e. the audit committee, the remuneration committee and the nomination committee. The Board has delegated various authorities to each of the committee of the Board, particulars of which are set out in the terms of reference for each committee.

The Board makes decisions on matters with specific responsibilities, and the management is authorized to execute and manage the daily affairs of the Company.

CORPORATE GOVERNANCE REPORT

During the Reporting Period and up to the Latest Practicable Date, the Board had, among other things, considered and approved the annual budget, management performance and the latest performance as compared with the annual budget as well as the business reports of the management, the annual results for the year ended 31 December 2016, monitored the significant operational management and assessed the internal control and financial matters of the Group.

Board Composition

The Board currently comprises nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. The profiles of these Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

Board Meetings

The Board shall meet regularly and hold at least four Board meetings each year, so as to discuss the overall strategies and operational and financial performances of the Group. For the year ended 31 December 2016, the Board held 4 meetings in accordance to the operational and business development of the Group, including 2 regular meetings and 2 provisional meetings. The attendance of each Director is detailed as follows:

	Attended meetings/ convened meetings	Attendance rate
Executive Directors		
Ms. Xie Yingxia *(Chairman)*	4/4	100%
Mr. Jin Chungen *(note 1)*	4/4	100%
Mr. Ling Chao	4/4	100%
Mr. Peng Cheng *(note 2)*	2/2	100%
Mr. Wong Hin Shek *(note 3)*	1/1	100%
Mr. Wang Jun *(note 3)*	1/1	100%
Non-executive Director		
Mr. Tseung Hok Ming	4/4	100%
Independent Non-executive Directors		
Mr. Cao Guoqi	4/4	100%
Mr. Cao Kuangyu	4/4	100%
Mr. Lee Ho Yiu Thomas	4/4	100%

note 1 *Mr. Jin Chungen resigned as an executive Director on 14 November 2016 but remains as Chief Executive Officer of the Company.*

note 2 *Mr. Peng Cheng was appointed as an executive Director on 17 October 2016.*

note 3 *Mr. Wong Hin Shek and Mr. Wang Jun were appointed as executive Directors on 14 November 2016.*

During the Reporting Period, the Company held each regular meeting with prior notices of fourteen days, to ensure that all Directors have the opportunity to propose matters to be discussed into the agenda. The Company held provisional meetings with reasonable notice, to enable all Directors to attend in their conveniences.

Chairman and Chief Executive Officer

Ms. Xie Yingxia serves as the Chairman of the Company.

The duties of the Chairman include: (a) approve and monitor the strategies and policies of the Company, annual budget and business planning, assess the performance of the Company, and oversee the management of the Company; (b) lead and monitor the duties of the Board to ensure the efficiency of the Board, perform due responsibilities, and discuss on all significant and appropriate issues in a timely manner; (c) ensure that all Directors are timely informed of the issues proposed at the Board meetings in due course, and all Directors are timely informed of sufficient and accurate information; and (d) examine and monitor the implementation of resolutions by the Board.

Mr. Jin Chungen serves as the Chief Executive Officer of the Company.

The duties of the Chief Executive Officer include: (a) manage the Group's businesses and coordinate the overall business operations; (b) participate in the formulation and implementation of the Group's policies and strategies approved by the Board, including facilitating the implementation of the Board resolutions, the annual operation plans and the investment plans of the Company; (c) with the assistance from the senior management team, submit the annual budget for the consideration and approval of the Board; (d) formulate the basic management systems of the Company, terms of reference, position standards and professional management procedures of each department as well as the performance assessing standards of the management of each level; and (e) fulfill other authorities granted by the Articles of Association of the Company and the Board.

There is no financial, business, family or other material/relevant relationship between the Directors and in particular the Chairman and the chief executive of the Company.

Independent Non-executive Directors

During the Reporting Period, the Board had complied with the requirement as set out in the Listing Rules regarding appointment of at least three independent non-executive directors, one of which shall have appropriate professional qualifications or accounting or related financial management expertise. Independent non-executive directors play an important role through their independent judgments and advice of which is of great influence to the decision of the Board.

Each independent non-executive Director signed a letter of appointment with the Company for a term of three years since their respective dates of appointment. The Company has received an annual confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considered that all the independent non-executive Directors to be independent.

Time Commitment of the Directors

Besides attending formal meetings to learn more about business, the Directors could attend affairs of the Company through other channels, including debriefing to the Company's management, reviewing the operating information provided regularly by the Company and paying on-site visits to the Company's business, in order to gain a full understanding to the Company's business and perform their duties effectively. Having been through serious review, the Board is of the opinion that the Directors had dedicated sufficient time and efforts to perform their duties during the Reporting Period.

Directors' Continuous Training

Pursuant to the Corporate Governance Code, all Directors should participate in the continuous professional training to improve and enrich their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, all Directors have (i) attended the directors' training held by competent professionals engaged by the Company, in relation to, among other things, responsibilities of directors, continuous responsibilities of the listed company on information disclosure, corporate governance and the latest amendment to the Listing Rules; and (ii) went through information on the Listing Rules and other latest information on regulatory requirements. The training records of each Director are kept and updated by the company secretary of the Company.

Directors' Insurance

The Company has always emphasized the importance of risk prevention of our Directors liabilities and continued to purchase liability insurance for all the Directors.

Board Committees

The Board established the audit committee, the nomination committee and the remuneration committee. The Board committees have been provided with sufficient resources for performing their duties, and are able to seek independent professional advice under proper situation after proposing reasonable requests at the expense of the Company.

Audit Committee

The Company established the audit committee on 28 May 2012 in accordance with the requirements of Rule 3.21 of the Listing Rules and the Corporate Governance Code. The written terms of reference of the audit committee were formulated in compliance with the Corporate Governance Code. The audit committee is comprised of three members, namely, Mr. Lee Ho Yiu Thomas, Mr. Cao Kuangyu and Mr. Cao Guoqi, all of whom are Independent non-executive Directors. Mr. Lee Ho Yiu Thomas is the chairman of the audit committee. The primary duties of the audit committee include reviewing and supervising the Company's financial reporting processes and internal control systems, nominating and monitoring external auditors and providing advice and comments to the Directors.

For the year ended 31 December 2016, the audit committee held 2 meetings to discuss with the management the accounting standards and practices adopted by the Group, and to approve the results and financial statements of the Company for the year ended 31 December 2015 as well as the interim results and financial statements of the Company for the six months ended 30 June 2016.

The attendance of the meetings is as follows:

	Attended meetings/ convened meetings	Attendance rate
Mr. Lee Ho Yiu Thomas *(Chairman)*	2/2	100%
Mr. Cao Guoqi	2/2	100%
Mr. Cao Kuangyu	2/2	100%

Remuneration Committee

The Company established the remuneration committee on 28 May 2012 in compliance with the Corporate Governance Code. The written terms of reference of the committee were formulated in compliance with the Corporate Governance Code. The remuneration committee is comprised of three members, namely, Mr. Cao Guoqi, Mr. Lee Ho Yiu Thomas and Mr. Cao Kuangyu, all of whom are Independent non-executive Directors. Mr. Cao Guoqi is the chairman of the remuneration committee. The primary duties of the remuneration committee include evaluating the performance of executive Directors and senior management and determining their remuneration packages and making recommendations on the remuneration of non-executive Directors.

For the year ended 31 December 2016, the remuneration committee held three meetings to consider and review the employee's salary and benefit, as well as the remuneration policies and structure of Directors and senior management of the Company. In addition, during the Reporting Period, the remuneration committee fixed the remuneration of Mr. Peng Cheng, Mr. Wong Hin Shek and Mr. Wang Jun for being appointed as executive Directors.

The attendance of the meetings is as follows:

	Attended meetings/ convened meetings	Attendance rate
Mr. Cao Guoqi *(Chairman)*	3/3	100%
Mr. Lee Ho Yiu Thomas	3/3	100%
Mr. Cao Kuangyu	3/3	100%

Nomination Committee

The Company established the nomination committee on 28 May 2012 in compliance with the Corporate Governance Code. The written terms of reference of the committee were formulated in compliance with the Corporate Governance Code. The nomination committee is comprised of three members, namely, Mr. Cao Guoqi, Mr. Lee Ho Yiu Thomas and Mr. Cao Kuangyu, all of whom are independent non-executive Directors. Mr. Cao Guoqi is the chairman of the nomination committee. The primary duties of the nomination committee include reviewing the structure, size, composition and diversity (including but not limit to gender, age, cultural and educational background, professional experience, skills and knowledge) of the Board; making recommendations on any proposed changes to the Director and senior management to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members; making recommendations to the Board on appointment or re-appointment of the Directors; in identifying suitable individuals, considering individuals on merit and against the objective criteria, with due regard for the benefits of diversity on the Board; reviewing the board diversity policy, as appropriate; and assessing the independence of the independent non-executive Directors.

For the year ended 31 December 2016, the nomination committee held 3 meetings to consider and review the structure and composition of the Board, assess the independence of independent non-executive Directors, nominate the Directors to be retired by rotation and review the board diversity policy. In addition, during the Reporting Period, the nomination committee discussed in detail the change in the composition of the Board and matters on succession for Directors, being the appointment of Mr. Peng Cheng, Mr. Wong Hin Shek and Mr. Wang Jun as well as the resignation of Mr. Jin Chungen.

The attendance of the meetings is as follows:

	Attended meetings/ convened meetings	Attendance rate
Mr. Cao Guoqi *(Chairman)*	3/3	100%
Mr. Lee Ho Yiu Thomas	3/3	100%
Mr. Cao Kuangyu	3/3	100%

Board Diversity Policy

According to the latest amendments to the Listing Rules on board diversity, the Board formulated and adopted the board diversity policy ("Board Diversity Policy"). The Company recognizes the benefits of Board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of Board diversity. The Company will also take into consideration factors based on its own business scope and specific needs from time to time in determining the optimum composition of the Board. The Board has set measurable objectives (in terms of gender, skills and experience) to implement the Board Diversity Policy and review such objects from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The nomination committee reviewed the board composition pursuant to the above policy and the requirement of the Listing Rules and was of the opinion that the board members of the Company comply with the Board diversity as required by the Listing Rules in respect of age, educational background and professional experience. For details on the composition of the Board, please refer to section headed "Board Composition" and "Biographical Details of Directors and Senior Management" in this annual report.

Company Secretary

Ms. Sun Xin was appointed as a joint company secretary of the Company on 28 May 2012, and has been the company secretary of the Company since 21 March 2014. Details of the profiles of Ms. Sun Xin are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report.

According to Rule 3.29 of the Listing Rules, Ms. Sun Xin took no less than 15 hours of relevant professional training for the year ended 31 December 2016.

Shareholders' Rights

Procedures for Shareholders to convene an extraordinary general meeting

Pursuant to article 58 of the Articles of Association of the Company, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for making enquiries to the Board

Any Shareholder who has enquiries or advice may deliver to the Board through mail at Units 8505B-06A, Level 85, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, or e-mail to admin@dongwucement.com.

Procedures for putting forward proposals at general meetings

Shareholders can feel free to put forward proposals relating to the operations, strategy and/or management of the Group for discussion at general meetings. Such proposals shall be submitted to the Board or the company secretary by written requisition through mail at Units 8505B-06A, Level 85, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. Pursuant to the Articles of Association of the Company, Shareholders who proposed to submit proposals should convene an extraordinary general meeting in accordance to the procedures as set out in the "Procedures for Shareholders to convene an extraordinary general meeting" above.

In respect of recommendation on proposing certain candidate to be elected as a Director, please refer to (i) the procedures as set out in the Articles of Association of the Company published on the websites of the Company and the Stock Exchange; and (ii) the "procedures for shareholders to propose a person for election as a director of the Company" on the website of the Company.

General Meeting

During the Reporting Period, the Company convened an annual general meeting on 20 May 2016 to approve (among others) the audited consolidated financial statements of the Group for the year ended 31 December 2015, the reports of Directors and auditor and the re-election of Directors. All Directors have attended the annual general meeting. The attendance of each Director is detailed as follows:

	Attended general meetings/convened meetings	Attendance rate
Executive Directors		
Ms. Xie Yingxia *(Chairman)*	1/1	100%
Mr. Jin Chungen *(Chief Executive Officer) (note 1)*	1/1	100%
Mr. Ling Chao	1/1	100%
Mr. Peng Cheng *(note 2)*	N/A	N/A
Mr. Wong Hin Shek *(note 3)*	N/A	N/A
Mr. Wang Jun *(note 3)*	N/A	N/A
Non-executive Director		
Mr. Tseung Hok Ming	1/1	100%
Independent Non-executive Directors		
Mr. Cao Guoqi *(chairman of the remuneration committee and the nomination committee)*	1/1	100%
Mr. Cao Kuangyu	1/1	100%
Mr. Lee Ho Yiu Thomas *(chairman of the audit committee)*	1/1	100%

note 1 *Mr. Jin Chungen resigned as an executive Director on 14 November 2016 but remains as Chief Executive Officer of the Company.*

note 2 *Mr. Peng Cheng was appointed as an executive Director on 17 October 2016.*

note 3 *Mr. Wong Hin Shek and Mr. Wang Jun were appointed as executive Directors on 14 November 2016.*

Nomination of Director

According to Article 85 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting, provided that a notice signed by a Shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting is given, stating his intention to propose such person for election and also a notice signed by the person to be proposed is given, stating his willingness to be elected, both of which shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting for such election) the period for lodging of such notice(s) shall commence on the day after the despatch of the notice of the general meeting for such election and end no later than seven (7) days prior to the date of such general meeting.

Internal Control

The Board is responsible for maintaining an effective internal control system to safeguard the assets and the interests of Shareholders of the Group, and regularly reviewing and monitoring the effectiveness of internal control and risk management system to ensure an adequate and sufficient system. The Group implemented internal control system to minimize the risks encountered by the Group, and functioned it as a management tool of daily business operation management. The system only provides reasonable, rather than absolute, guarantee against misstatements or losses.

The Company has adopted a set of guides and policies on internal control, including manuals on corporate governance, to improve the existing internal control system, covering corporate governance, risk management, operation, legal affairs, finance and audit.

During the Reporting Period, the Company has maintained high-level corporate governance. The Board has conducted annual review on the implemented systems and procedures, covering finance, operation, legal compliance control, and risk management functions.

For the year ended 31 December 2016, the Board considered the internal control system of the Company was adequate and effective, and the Company also complied with the code provisions in relation to internal control as set out in the Corporate Governance Code. The Audit Committee will constantly review and assess the effectiveness of the internal control system of the Group, and report the results to the Board. The Board would conduct review and assessment of the internal control system of the Group at least once a year, so as to ensure that it is free from any major supervisory deficiency.

Amendments relevant to risk management and internal control set out in Corporate Governance Code and Corporate Governance Report of Appendix 14 of the Listing Rules shall be effective for the accounting period beginning in or after 2016. The Company has approved the amendments to the Working regulations for the Audit Committee of the Board of Dongwu Cement International Limited (《東吳水泥國際有限公司董事會審核委員會工作條例》) based on the Code Provision C.2.1 of Corporate Governance Code at the Board meeting held on 29 December 2015. The Company reviewed the effectiveness and sufficiency of the risk management and internal control systems with continuous commitment for compliance of the provisions for the amendment under the Listing Rules.

Directors' Responsibilities in respect of Financial Statements

The Directors acknowledge that they are responsible for giving honest, clear, and plain assessment on the performance, position and prospect of the consolidated financial statements as set out in annual and interim reports of the Group in accordance with the statutory requirements and the applicable accounting standards. The Directors also acknowledge their responsibility for preparing the financial statements of the Group for the year ended 31 December 2016. Having made all reasonable enquiries, the Directors confirm, to the best of their knowledge, information and belief, that they were unaware of any significant uncertainties relating to the events or situations that may seriously cause doubt on continuing operation of the Company on an ongoing basis. To prepare the financial statements for the year ended 31 December 2016, the Directors have adopted appropriate accounting policies and applied consistently, and made prudent and reasonable judgments and estimates.

Risk Management and Internal Control

In order to ensure efficient operation and efficiency of our business as well as compliance with relevant laws and regulations, the Group emphasizes the importance of establish a sound internal control system. Further, the system is an integral part in mitigating the risks borne by the Group. The Group's internal control system is designed to provide reasonable but not absolute assurance against material misstatement or loss; to manage but not eliminate risks of failure in operational systems or failure to achieve business objectives; and to achieve business objectives. The Board continues to review the internal control system, enabling it an effective and viable system that can provide reasonable assurance, protect our important assets and identify business risks. According to the information available to the Board and its observation, the Board believes that the Group's existing internal control is satisfactory. The Group strives to identify, control and manage risks related to its business activities and implement effective and viable control system, including management structure with specific written terms of reference, sound cash management system as well as regular review on the Group's performance carried out by the Audit Committee and the Board. The Board has reviewed the effectiveness of the internal control system of the Group. It is of the opinion that the internal control system adopted during the year ended 31 December 2016 was sound and effective, and is sufficient to safeguard the investment benefits of the Shareholders and the Company's assets.

Main features of the risk management and internal control systems

Board is responsible for overseeing the risk management and internal control systems of the Group on an ongoing basis. The main duties are as follows:

(a) to set the strategic goal of risk management, evaluate and determine the nature and extent of risk it is willing to take in achieving strategic objectives;

(b) to ensure that an appropriate and effective risk management and internal control systems is established and maintained; and

(c) to review the effectiveness of the risk management and internal control systems at least once a year.

Meanwhile, the Board authorizes the Audit Committee to oversee the financial reporting system, internal control and risk management procedure. The main duties are as follows:

(a) to review the Company's financial control, and, unless expressly under the handling of an otherwise established risk committee under the Board or the Board itself, to review the Company's internal control, risk management systems and other major financial matters;

b) to review the annual report prepared by the management and certified by the external auditor of the Company, among which, the external auditor shall evaluate the effectiveness of the Company's internal control set out in the financial report and set forth the duties of the management to establish and maintain an effective risk management and internal control systems;

(c) to discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to have an effective system in place. The discussion should include the adequacy of resources of the Company's accounting, financial reporting, risk management and internal control function, staff qualifications and experience, and the sufficiency of training programmes and budget in this regard;

(d) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(e) to ensure the co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(f) to review the Group's financial and accounting policies and practices, and to monitor the Company's financial operation and core business status;

(g) to review the external auditor's Letter of Statement on Audit provided to the management, any material queries raised by the external auditor to the management about accounting records, financial accounts or systems of control and management's response;

(h) to ensure that the Board will provide a timely response to the issues raised in the Letter of Statement on Audit provided by the external auditor to the management;

(i) to report to the Board on the matters set out in the Corporate Governance Code under Appendix 14 of the Listing Rules;

(j) to review the following arrangements made by the Company: the employees of the Company may, in confidence, raise concerns about potential improper behaviors arising from financial reporting, internal control, risk management or other matters. The Audit Committee should ensure that proper arrangements are in place for the fair and independent investigations of such matters and appropriate actions;

(k) to timely ascertain the reasons of resignation of the executive Director, general manager, financial controller or head of internal audit/head of credit control of the Company upon their resignations;

(l) to prepare draft reports or summary of work reports for the prescribed period, the former shall be submitted to the Board for review and the latter shall be included in the Group's quarterly, interim and annual reports;

(m) to consider the proposal of the Board in relation to the appointment, replacement or removal of any member of the Audit Committee and the auditors;

(n) to review regularly the following matters with the Company's financial officer and the external auditor:

    (i) all major deficiencies and serious defects in the internal control measures of financial report during the setting or implementation may adversely impact the capability of recording, handling, summarizing and reporting of financial information; and

    (ii) any fraudulent acts in respect of the management or other employees who play an important role in the internal control over the Company's financial report, regardless of the seriousness of such frauds;

(o) to act as the key representative body to oversee the Company's relationship with its external auditor; and

(p) to consider any other matters as authorized by the Board.

The Company has also set up the internal audit function, which reports directly to the Audit Committee and is responsible for making analysis and independent assessment as to whether the risk management and internal control systems is sufficient and effective.

Procedures on identifying, assessing and management material risks

The risk management procedures of the Group are as follows:

Project initiation — to initiate risk management and prepare for relevant activities.

Risk identification — to identify the current risk exposure.

Risk analysis — to conduct two-dimension risk analysis, including the extent of influence and possibility of occurrence.

Risk response — to select the proper risk response and develop strategies to mitigate risks.

Control measures — to propose up-to-date internal control measures and policy and process.

Risk control — to continuously monitor the identified risks and implement relevant internal control measures to ensure the effective operation of risk response strategies.

Risk management report — to conclude the findings of risk assessment and analysis and internal audit, formulate and report an action plan.

Procedures on handling and disseminating inside information and internal control measures

The Group handles and disseminates inside information in accordance with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information. In addition, the Company keeps the Directors, senior management and employees appraised of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements. The Board has reviewed the risk management and internal control systems for the year ended 31 December 2016 to ensure the effectiveness and adequacy of the systems. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of Company for the year ended 31 December 2016 were effective and adequate.

Auditor's Remuneration

BDO Limited was the independent auditor of the Company. For the year ended 31 December 2016, the remuneration payable by the Company to BDO Limited is set out below:

Services rendered by the auditor	**Remuneration** *(RMB'000)*
Annual audit service	874
Non-audit services (for review of the interim results of the Group)	120
Total	994

Amendments to the Articles of Association

The Company adopted the existing Articles of Association on 28 May 2012, which became effective on the date of listing. Subsequently and up to the date of this report, there is no significant change to the Articles of Association of the Company.

Investor Relationship

The Company leverages on various formal channels of communication to ensure a fair and transparent disclosure on the business and financial performance. The information of the Company will be published on its website at www.dongwucement.com. The interim and annual reports, circulars and notices of the Group will be uploaded on the websites of the Stock Exchange and the Company and hard copies of the same will be dispatched to the Shareholders in due course.

The website of the Company provides information such as e-mail address, correspondence address and telephone number for public enquiries, as well as information on the business activities of the Company.

The annual general meeting of the Company provides a communicative opportunity between the Board and the Shareholders. The notice for the annual general meeting and related documents will be dispatched to the Shareholders in accordance to the Listing Rules, and will be published on the websites of the Stock Exchange and the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About this Report

Dongwu Cement International Limited ("Dongwu Cement" or "the Company") and its subsidiaries (collectively referred to as "the Group"), are principally engaged in cement production with headquarter in Suzhou, southern Jiangsu Province. In order to expand our business, we have been actively concerning about the development of upstream and downstream industry chain of cement industry in recent years; besides, we have opened up the environmental protection segment as laying a new milestone.

As a cement manufacturer with a good regional brand image, the Group is the only cement producer in the prefecture-level city which uses the new dry process for cement production focusing on technological innovation and transformation to improve production efficiency and reduce production costs. The main products of Dongwu Cement are ordinary portland cement (PO42.5 cement) with strength class of 42.5 and composite portland cement (PC32.5R cement) with strength class of 32.5R (referred to as "cement segment"). In 2015, we acquired the integrated environmental service provider that provides scheme design, project implementation, facilities investment and operation management, to develop the areas such as sewage treatment, water recycling, sludge treatment and disposal. The new business will deliver dual value in terms of pollution control and resource recycling (referred to as "environmental protection segment").

This report is our first environmental, social and governance report covering the reporting period from 1 January to 31 December 2016, summarizing the views on the commitments, strategies and effectiveness of the Group on environmental, social and governance.

The scope of this report covers the cement segment and the environmental protection segment. On preparing this report, we have followed the reporting guidelines on environmental, social and governance as set out in Appendix 27 of the Rules Governing the Listing of Securities published by the Hong Kong Exchanges and Clearing Limited ("HKEx"), for the purpose of making related disclosures of the material aspects set out in the guidelines during the reporting period.

We welcome any comments and recommendations on this report and our environmental, social and governance performance. Please contact by email admin@dongwucement.com.

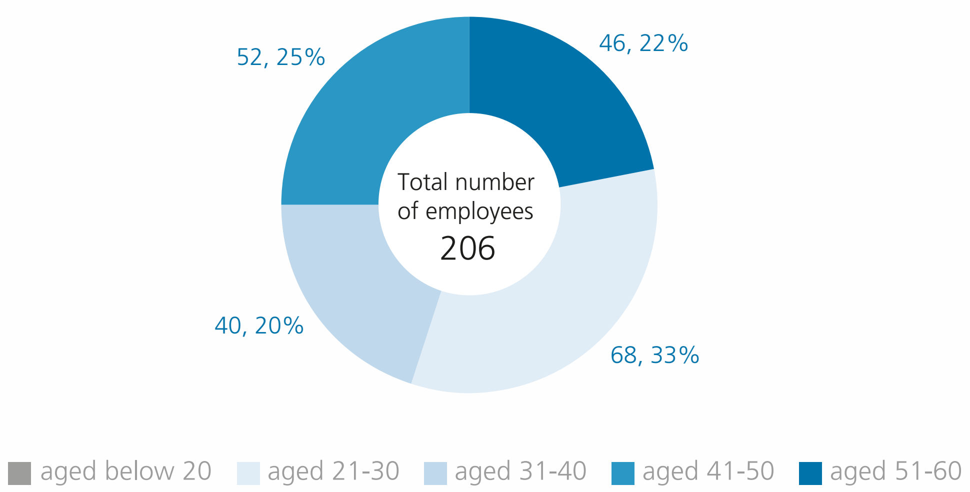
Stakeholder Participation

On the way to diversify its business, the Group relies on closely cooperating and moderately communicating with stakeholders. Our key stakeholders are groups that are highly affected by the Group's business or are able to influence the Group's business, including customers, business partners, suppliers, employees, investors, shareholders, governments and local communities. We believe that communication with stakeholders will allow us to better develop our business strategy in response to the needs of stakeholders, and also allow us to anticipate risks and consolidate sound development of business and community. We communicate actively and regularly with stakeholders through formal and informal channels in our daily operations. We have arrived at a series of important agendas related to environment, social and governance, which are disclosed in this report.

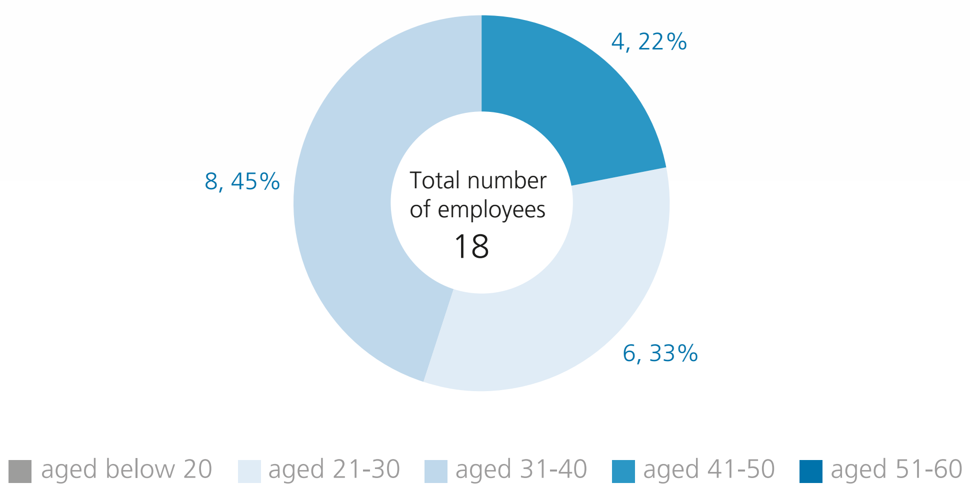
Rewarding our Employees, Creating a Happy Workplace

Employees are the stakeholders who contribute time and efforts to us. Giving employees the appropriate care and supporting their growth in the workplace is our obligation and responsibility. The Group has a total of 254 employees, of whom 206 serve in the cement segment and 18 in the environmental protection segment, whose age distribution is as follows:

Cement segment - category by age



Environmental protection segment - category by age



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a listed and renowned company with more than 100 employees, we have established a sound "Human Resources Management System" to strengthen the Company's standardized management. The system includes recruitment procedure, remuneration management, employee career development, labor rights and occupational safety, etc. The system enables us to absorb talents and build a diversified workforce, and ensures that they can work in a safe environment and are provided with the opportunities of employment, training or promotion in fair competition.

In terms of recruitment, the Company strictly abides by the Labor Law of the People's Republic of China. We ensure that, in the recruitment procedure, candidates are treated as our employees and not discriminated or treated unfairly because of ethnicity, race, gender or religion. At the same time, in accordance with the Provisions on Prohibition of Child Labor, we prohibit the recruitment of minors under the age of 16, and we will conduct strict inspection of the relevant documents of candidates to identify the authenticity of their identity, so as to meet the recruitment requirements. In addition to complying with the requirements of various regulations, we will carry out the recruitment procedure according to the Company's "Management Regulations on Staff Recruitment". The document records the recruiting procedures in details, including: all departments are required to submit to the Personnel Department the "Staff Recruitment Demand List"; our Personnel Department publishes job advertisements, invites candidates for interview and arrange and inform the new staff to register with the Company. Before recruiting new employees, we will consider the internal promotion indeed, and try as far as possible to meet the principle of "comprehensive assessment, merit-based hiring, meritocracy, priority of internal placement over external recruitment".

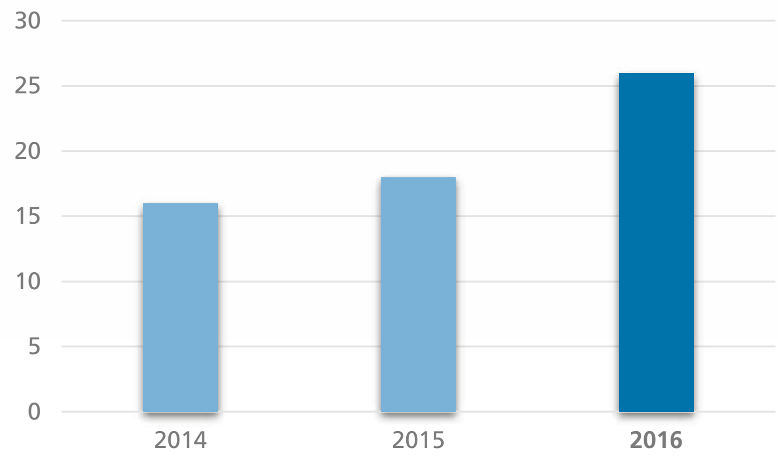
In terms of remuneration management, in order to effectively introduce, motivate and retain talent, environmental protection segment subsidiary adheres to the principles of "fairness, competitiveness, incentive, cost-effectiveness and lawfulness". We develop our remuneration mechanism in accordance with regulatory requirements and the actual operating conditions to ensure that every employee can be fairly treated. The composition of employee remuneration includes basic salary, position allowance, benefits and performance bonus. Performance bonus allows at least 20% of the salary to be performance linked, procuring the Company and employees to remain competitive in the industry. As for cement segment, employee remuneration includes basic salary, overtime pay and annual performance bonus, which will be appropriately adjusted upon appraisal every year. In the area of employee career development, the employees of environmental protection and cement segments are given the opportunities of promotion according to their ability to work, performance and contribution to the Company. Changes in remuneration will also be adjusted with changes in rank to encourage employees to develop long-term career in the Company.

In terms of labor rights, we implement personal leave, sick leave, marriage leave, funeral leave, maternity leave, paternity leave, breastfeeding leave, abortion leave, work-related injury leave and annual leave according to law. In terms of labor insurance, we also strictly abide by the Social Insurance Law of the People's Republic of China and the Regulations of Jiangsu Province on Work-related Injury Insurance to provide the pension, medical, work-related injury, unemployment and childbearing security. In the care of female employees who have just become mothers, we give the breastfeeding leave of one hour a day to every female employee who has just given birth to a child in one year. In addition, the Group puts emphasis on the career development of female employees. In 2016, the average number of training hours for female and male employees is 26 hours respectively, ensuring that female employees have equal training and promotion opportunities as male employees.

We focus on the physical and mental development of staff. In our office premise, there is a recreation room equipped with table tennis and other leisure facilities. There is a basketball court next to the building for the staff to exercise during the break. During the year, the Company also organized a number of different theme activities, such as the monthly birthday party, the Mid-Autumn tea party and the Spring Festival party, to help employees balance between life and work.

In order to improve the overall quality and working competence of staff, Human Resources Department will discuss with the head of each department every year. Our staff training is designed based on practicality, effectiveness and pertinence. The Company's training is divided into five categories: employee induction training, job skills training, safety education and training, assignment training and staff self-training. To enhance the staff's sense of belonging and awareness of the Company, the head of Human Resources Department will give a lecture on the corporate culture, management system and three-level production safety education in the induction training. Job skills training is the training on job skills for employees carried out in each department, and it will regularly arrange employees to exchange with each other, learn and update with the professional knowledge and skills. After the training program, the staff are required to pass the training-related assessment, to complete the entire training courses, thereby ensuring that they are benefited from the training. In addition, the Company will organize the assignment training, and also encourage employees to participate in various amateur education and training activities for self-improvement, without affecting the routine work.

As to cement segment, the total number of trainees amounted to 100 in 2016, accounting for 49% of the total employees. According to the classification of employees, the per capita training time for middle management and technical staff is 26 hours and 36 hours respectively, and the per capita training time of all employees is 26 hours.



Per capita training time (hours)

We put high emphasis on occupational safety of employees. In accordance with the provisions of the Law of the People's Republic of China on Safe Production, Law of the People's Republic of China on Special Equipment Safety and the Regulations of the People's Republic of China on Pneumoconiosis Prevention and Control, we implement sufficient safety measures in every position to ensure that every employee can work in a safe environment. The measures include: regular safety education and training seminar with the aim to brief employees on how to properly use and keep custody of labor protection products, and to teach safety and technological knowledge, introduce the emergency rescue and self-help measures in the case of work-related injuries and accidents and illustrate some incidents that could occur during production and so on. At the same time, we ensure that staff of special position must be qualified and provide relevant certificates to procure safety. As to fire protection, we strictly abide by the Fire Control Law of the People's Republic of China and the Regulations of Jiangsu Province on Fire Control. The Company conducts one or two emergency rescue training and rehearsals every year so that all staff will be familiar with the emergency arrangements.

As to environmental protection segment, although office work does not involve serious occupational hazards, we still take measures for office security, including: prohibition of smoking in the Company's office area or public areas; no alcohol during work and lunch time; prohibition of work after drinking alcohol; keeping good custody of cash and valuables in locked safe or drawer; closing the windows and locking the doors before leaving.

All employees are protected by the Social Insurance Law of the People's Republic of China and the Regulations of Jiangsu Province on Work-related Injury Insurance. Under the implementation of a series of measures and strict control, the Company has not recorded any major work-related injury or death accident during the reporting period. At the same time, we have the honor to announce that the Company has passed "Occupational Health and Safety System Certification OHSAS18001: 2007" in September 2014, representing that the Company's occupational safety and health management system is in line with international standards.

We understand that human capital is one of the keys to business success. In the future, we will strengthen communication with our staff, understand their needs, optimize the working environment and management system in order to encourage and retain talent and improve the Company's productivity and competitiveness.

Business Ethics and Anti-corruption

We highly value business ethics. All business activities of the Company are carried out with integrity, in a moral and lawful manner. For example, as for our procurement, available suppliers must be assessed by various departments, and procurement may be carried out only after approval and signing for confirmation by various departments. We prohibit any form of corruption, extortion, fraud, bribery, money laundering, false statement or forgery. As to environmental protection segment, our staff are required to sign the "letter of undertaking", confirming to be in absolute compliance with laws and regulations and prevention of all illegal acts. Any who defies the law may violate the Criminal Law of the People's Republic of China. Once such an incident occurs, we encourage employees to report to their superiors immediately. Therefore, we have established a number of employee WeChat groups, so that employees can send feedback to and notify the department leaders more easily.

Responsible and Lawful Procurement

The quaintly of suppliers have a direct impact on the Company's products, services and even corporate image. Therefore, we are committed to establishing a close and long-term relationship with suppliers, and we will also closely monitor the selected suppliers. We have established the "Integrated System Management Manual for Quality, Environmental and Occupational Health and Safety Management" in the cement segment and the "2015 System Manual" in the environmental protection segment to assist in centrally and effectively managing our supply and purchasing department, and convey our needs and feedback to suppliers, so that the suppliers selected by us can uphold the integrity, fair trade, protect the environment, comply with laws and regulations and provide good quality products.

Our suppliers mainly provide raw materials, including clinker, limestone, bituminous coal, gypsum, slag and sandstone and others. To ensure that suppliers provide products timely according to desired quality and quantity and at moderate price, the Group has established a comprehensive supplier selection procedure to ensure product quality from the source. In considering and selecting suppliers, the Group requires that a supplier must hold a business license granted by the government and comply with the laws and regulations on environment, society and governance. After that, our Supply Department will request the supplier to deliver its quality management procedure and track records of supply. Our laboratory will request certain samples for quality test. We will make a comprehensive assessment based on the quality of suppliers, records of their on-time delivery, cost and other factors, and we only include qualified suppliers into the Company's "qualified supplier directory". Every year, we regularly assess and monitor the quality of our suppliers in accordance with the Supplier Re-assessment Record Form and do not engage any illegal or inferior suppliers. During the reporting period, the Company has 24 suppliers, most of whom are located in Jiangsu Province.

As to environmental protection segment, we will go through fair, impartial and open tendering procedures in accordance with the Law of the People's Republic of China on Tenders and Bids in selecting the suppliers of surveying, design, construction, equipment, materials and goods. We adopt internal invitation to tender. We will send tender invitations to three or more reputable entities with required capabilities in project tender, and we will select the eligible candidates according to such criteria as excellent quality, good service and moderate price.

As a socially responsible company that implements its integrated management system, we also expect that our suppliers will agree and comply with the following guidelines on environment, society and governance. As to cement segment, we have set up the "Procedures on the Administration of Imposing Impact on Stakeholders", according to which our Supply Department is responsible for assessing and managing material suppliers and other stakeholders. Relevant measures include irregular supervision over and inspection on the suppliers. The main contents of the inspection are:

1. Whether the supplier understand the integration policy of Dongwu;

2. Whether the supplier has been complained by the relevant parties for environmental, labor protection or occupational health and safety issues;

3. Whether the supplier has been subjected to the punishment by higher authorities or environmental pollution authorities due to environmental pollution incidents or occupational health and safety incidents;

4. Whether the supplier's pollutant discharge is up to standard, or has been significantly reduced, and whether its occupational health and safety performance has changed significantly.

The following is the code of conduct for the suppliers in environmental protection segment:

1. Employees who are below the statutory working age shall not be employed. Employees must be at least 16 years old, except for students who are accredited by professional apprenticeship programs.

2. The supplier shall sign a labor contract with all employees in accordance with local laws and regulations.

3. The supplier shall develop health and safety policies and clearly set out operational procedures in order to reduce injury of employees and ensure employees' health.

4. The supplier shall provide training to employees on related safety code of practice to ensure the safety of themselves and all others.

5. The supplier shall formulate operational procedures in accordance with environmental laws and regulations to ensure that its products will not cause contamination and harm to the environment.

Continuous Improvement and Striving for Excellence

With its long history and high-quality products and services, "Dongwu" brand is prestigious in the municipal transport and construction markets in Suzhou. In order to maintain a good brand image of "Dongwu", the Company is committed to maintaining excellent quality and safety standards. It integrates the concept of sustainable development into product manufacturing process, thereby enhancing its market competitiveness.

As a responsible corporate citizen, we ensure our products comply with local laws and regulations. In accordance with the Regulations on Quality Management on Cement Enterprises promulgated by Ministry of Industry and Information Technology, we have developed a sound quality management system – Rules on the Implementation of Quality Management, requiring employees to strictly implement the production processes, ensuring product quality and in compliance with the cement-related requirements and standards as set out in the Product Quality Law of the People's Republic of China and GB175-2007 General Portland Cement, to prevent any substandard ex-factory products. Our product labels are marked with "ex-factory cement quality certificate" which contains the requirements of "General Portland Cement". Customers may feel at ease in using our products.

Our laboratory is the key control department, responsible for quality inspection, control, statistics, verifying ex-factory cement and performing experimental research: before the production, if any material has been found to be substandard, it is not allowed to be unloaded; during production, the laboratory shall assume the responsibility to ensure that semi-finished products, that is, clinker, comply with the strength standard set out in GB/T21372-2008 "Portland Cement Clinker"; after the production, if the cement does not meet the technical requirements of any national standard, it constitutes a major quality incident. We are pleased to announce that during the reporting period, the quality conformity rate of our ex-factory cement was 100%.

In order to ensure that our laboratory is qualified to handle the above work, we have established and purchased the laboratory equipment according to the requirements of the "Basic Conditions of Cement Enterprise Laboratory" issued by the State Economic and Trade Commission. We arranged experienced technical personnel to operate the equipment, and obtained the certificate of "Cement Enterprise Laboratory". In addition, we have won the title of "All-rounded Excellent Company" at the 2015 "Ruitai Science Cup" recognized by National Quality Supervision and Inspection Center for Cement and the National 15th Cement Quality Indicators Tests. At the same time, we have passed the "International Quality Management System Certification ISO 9001:2008", showing that the continuous efforts in excelling ourselves is well recognized.

We spend little in advertising for product promotion, but promote Dongwu brand from time to time in the industry magazine. We also publish genuine and appropriate advertising content strictly in accordance with the provisions of Advertising Law of the People's Republic of China. In addition, as for the protection of business agreements with customers, we properly keep good custody of the contracts entered into with customers and taking effect in the filing room. In order to secure confidentially and customer privacy, the original files can not be taken away without approval of the deputy general manager or above rank.

Service Innovation, Customer Satisfaction

We value customer recognition of and satisfaction about "Dongwu" as always. We are committed to providing customers with professional, timely and standardized after-sales service to win customer trust, and to ensure that products meet customer expectations. We conduct customer satisfaction surveys every year. According to the "Customer Satisfaction Statistics", customers are requested to give us feedback on six major areas, including quality, price, delivery, after-sale follow-up service, consultation or complaint handling and timely supply of goods. For the current year, the customer satisfaction is 96.7%, which is higher than the company's quality target of 90%.

As to the environmental protection segment, in order to effectively protect the interests of customers, and ensure timely and effective handling of customer complaints and feedback, we have established a "customer complaints system" to improve our quality of services. We cherish customers' advices, and we take their valuable advices as the new horizon for us to improve product quality and enhance the quality of after-sales services.

Environmental protection and Ecology

As a renowned listed company in Jiangsu with a long history, Dougwu Cement pursues its responsibility and obligation to protect the environment. As a manufacturer focusing on cement manufacturing, we might cause certain impact on the environment due to emissions and resource use. In view of this, we actively strengthen the Group's environmental protection management, while focusing on business development. Many years ago, the Company set up an environmental mission team, and developed "Suzhou Dongwu Cement Co., Ltd's Environmental Protection Management System", "Suzhou Dongwu Cement Co., Ltd's Environmental Protection Assessment Measures", "Suzhou Dongwu Cement Co., Ltd's Incidental Discharge Plan", "General Inspection Procedures for Bag Type Dust Collectors", "General Inspection Procedures for Electrostatic Dust Precipitators", and other systems and procedures manage environmental issues and contribute our efforts to conserving the Earth.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are well aware that the efforts in environmental protection needs to be sustained. As a result, our environmental mission team has a long-term plan. It has purchased advanced equipment to reduce pollutant emissions, strictly monitors all pollution behaviors, and carefully manages the entire production process. We insist on complying with the PRC environmental laws and regulations, including the Environmental Protection Law of the People's Republic of China. With this pursuit, we obtained the "Environmental Management System Certification ISO14001: 2004" in September 2014. Since then, we never have slowed down the pace. Every year, the Company will be subject to supervision and audit to meet international standards and will be required to remain above the standard of "ISO14001: 2004" upon re-assessment once every three years.

In the process of cement manufacturing, the most material emissions are air pollutants and industrial noise. In the control of air pollutant emissions, we strictly abide by GB 4915-2013 "Air Pollution Emission Standards for Cement Plant" and the requirements of the Air Pollution Control Law of the People's Republic of China. This standard provides that emissions of air pollutants in the process of cement production, including particulates, sulfur dioxide, nitrogen oxides and fluorides, must meet the emission limits. In order to mitigate this category of pollutants, we use a lot of different pollution control equipment, including electrostatic dust precipitators and bag type dust collectors. In addition to the purchase, installation and use of the equipment, we will maintain and manage the equipment on a regular basis to ensure that they are functioning properly and maintain a high level of dust collection efficiency. At the same time, we regularly obtain test reports approved by third-party to ensure that the effective terms period of equipment are in line with relevant provisions. We also detect our emissions of furnace gas to ensure it meets the requirements of "Air Pollution Emission Standards for Cement Plant".

In the aspect of noise emissions control, we comply with GB 12348-2008 "Noise Emission Standard for Industrial Enterprises at Boundary of Plants". The Company uses qualified muffler equipment to reduce the noise emitted by industrial parks during the day and at night, and regularly cleans equipment and inspects the use of equipment to ensure that they can effectively control noise emissions below the standard allowable limits.

Although we try our best to reduce the sewage discharge, as a production plant, certain pollutants are inevitably produced. In this regard, we assume our responsibilities as an enterprise and rigorously pay pollutant (including exhaust gas and sewage emissions) sewage charges to the provincial government. We understand that environmental protection and emission reduction is far more than the fundamental task of the Group, and only by applying our expertise and knowledge in more enterprises can we most effectively respond to environmental protection and contribute to the community. Therefore, as to the environmental protection segment, we actively develop and design effective sewage treatment plans to help enterprises reduce harmful emissions. In the past three years, the Company has successfully applied for 13 patents and has been granted 10 patents, including 3 invention patents and 7 utility model patents, 3 invention patents under application and 8 registered trademarks. Details are as follows:

Invention Patent:

1. High-strength circular flow flat sheet membrane biological water treatment device and realization method thereof

2. Preparation method of hollow filtering member and product thereof

3. Preparation method for ultra-high molecular weight polyethylene filtering material

Utility Model Patents:

1. High-strength circular flow flat sheet membrane biological water treatment device

2. Flotation device

3. Fungicide dosing device

4. Ultrafiltration system

5. Reverse osmosis device

6. Chemical cleaning device

7. Multi-media filter

Resources and Energy Conservation

There are some resources on the planet that are not renewable. Accordingly, we are individually obliged to cherish resources. In response to the government's call for energy conservation, emission reduction and comprehensive utilization of resources, we are actively transforming and enhancing the efficiency of energy-efficient equipment to reduce energy consumption while reducing greenhouse gas emissions. In addition to the improvements on the equipment, we have set up an energy mission team to develop internal management documents for the energy management system and propose improvement plans for energy efficiency management. According to GB/T23331-2012 "Energy Management System Requirements", the Group has formulated the "Energy Management Manual" and formulated energy conservation goals and measures to ensure that energy management and emission reduction can be effectively achieved from the production process to logistics management. In the implementation and monitoring of energy management, we need the cooperation and support of all employees, e.g. requiring employees to turn off the equipment left unattended, prohibiting any waste of energy in the workshops, and ensuring that no resources are wasted.

In the entire cement production process, the energy we consume is mainly raw coal, electricity and water, and the main energy consumption equipment and facilities are raw material grinding mill, rotary kiln, cement mill and air compressor. The consumption of raw coal is generally in the firing workshop, while the consumption of power and water is distributed across various departments and ancillary systems. In order to save coal, the Company adopts new dry process on its production line, so that the coal consumption per ton of clinker is significantly reduced. At the same time, the Company uses closed circulating water system. The waste water generated by each workshop are delivered to the circulating pool, and recycled after processing, to ensure the recyclability rate of water resource reaching 95% or more. The rest of the waste water that cannot be recycled will be used for landscaping of factory districts after purification in a bid to achieve zero emissions. In addition, the Company has introduced frequency control devices and carried out technological upgrade of phase advancers to reduce power consumption of our equipment and facilities.

In 2009, we built a pure low-temperature waste-heat power plant, with the aim to reduce the annual grid power purchase volume. The power source of this power plant is the exhaust gas produced in cement kiln. The exhaust gas propels the gas turbine to produce electricity. According to the power purchase records for 2014 to 2016 (see Table 1), the power purchased by us from the grid declined year by year, saving us a lot of electricity charges. Therefore, in terms of cost effectiveness, the construction of this pure low-temperature waste-heat recovery power plant can reduce our purchase of power from the grid. Meanwhile, in terms of environmental protection, it can reduce the consumption of coal and the emission of carbon dioxide and other gases in the combustion process, and also properly dispose of the exhaust gas generated in production, so as to achieve the triple effects of "waste utilization, energy conservation and emission reduction".

In addition to the low-temperature waste-heat recovery power plant, in 2014, we invested RMB11 million in energy conservation projects, including the purchase of new energy-saving equipment, improving the existing energy-saving technologies, and speeding up our pace of energy conservation and emission reduction.

Table 1 Historical three years' power purchase of Cement Segment

	2014	**2015**	**2016**
Electricity (GJ/kWh)	85,345,440	52,320,910	47,863,340

In order to integrate our effectiveness in energy conservation and ensure that we meet the requirements of laws and regulations, we have engaged professional national cleaner production auditors to prepare a clean production audit report. The report includes a detailed analysis of the reasons for the process from waste generation to energy consumption, the investigation of the Company's current production conditions, the provision of feasibility analysis and the implementation of inspection scheme, assisting the Company in improving the production model comprehensively to achieve cleaner production.

As to the environmental protection segment, we mainly use water, electricity and paper in office. In response to the global trend of energy conservation, we have formulated "Daily Office Management Rules" to encourage employees to contribute to environmental protection. The management measures cover three main areas, including:

1. In respect of the use of electrical appliances, whenever employees leave the office for more than 30 minutes, the idle electrical appliances, lights and other power consumption equipment must be turned off; the monitor and lights must be turned off during lunch time;

2. In the area of water conservation, the office staff often check the water consumption, immediately repair the dripping faucet, minimize water pressure, etc., and affix the "saving water" label onto the water-in-use positions to remind employees to cherish water;

3. In the aspect of paper conservation, we recommend that, before printing a large number of copies, employees should print one copy first and make sure it is in order before continuing to print other copies, so as to avoid wasting a lot of paper and supplies.

In summary, "environmental protection" is our top priority for the future. Through energy conservation and emission reduction, the Company is able to develop sustainably. In the future, we will continue to input resources in environmental protection segment for the goal of "low emission and low consumption".

Donations and Community Investments

Apart from focusing on the Group's business development, Dongwu Cement also recognizes its responsibility for developing the community and industry. Therefore, we have joined the "Wujiang Energy Conservation and Low Carbon Association" to help promote the sustainable development of the green economy and actively respond to climate change. The Association is composed of member enterprises from the energy-saving and low-carbon industry, and aims to carry out activities such as investigation, research, consulting, and organizing the R&D in energy-saving technology, its promotion and application. The Group has been enthusiastic about participating in the activities of the Association to enhance the efficiency in energy use of the Group, encourage other companies to follow us and reduce environmental pollution. At the same time, we also joined the "Environmental Scientific Research Society of Wujiang, Suzhou". During the year, we participated in activities such as the "Environmental Protection Technology Seminar", "2016 Environmental Protection Experts' Visit to Wujiang" and the "Environmental Protection Technology Exchange of Jiangsu Province" organized by the Society.

As to promoting the sustainable development of the industry, we are a member of the Suzhou Cement Association and a member of the Building Materials Industry Association of Jiangsu Province. The Group actively participates in the activities organized by the Association, strongly supports the industry to upgrade technologies and undertakes personnel and vocational training. In addition, we are an executive member of "Chamber of Commerce of Fenhu, Wujiang, Suzhou" to assist members to engage or communicate with the government. On one hand, we help the government promote new principles and policies, and on the other hand, we reflect the demands of other member units to the government and safeguard the legitimate rights and interests of the industry.

As to the environmental protection segment, our subsidiary is a member of the National Strategic Alliance for Urban Biomass Gas Industry Technology Innovation. The alliance is committed to developing an innovative technology industry chain in terms of environmental protection, in order to provide technology support to strengthen the administration of environmental pollution of China, reduce greenhouse gas emissions, develop renewable energy, optimize the regional energy structure and achieve the historic leap of economic and social development. The alliance also commends those enterprises and units which made relatively huge contribution to biomass gas industry development and selects member units. The Company is much honored of being a member unit of the alliance.

We expect to further participate in the events concerning the industry and community organized by other various chambers of commerce and associations in coming years so as to make contributions to the community and well-being of the public.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Forward Statement

Dongwu Cement provides high-standard and high-quality products and services over years. In order to meet the market trend, we continue to develop the operations such as sewage and sludge processing and related areas. Pursuing a good brand image of Dongwu Cement is the Group's vision as always.

Looking ahead, the Group is committed to integrating environmental, social and governance elements into its business operations and policy considerations, contributing to the environment and community and pursuing sustainable development at all levels.

We would like to take this opportunity to express our sincere gratitude to the shareholders and other stakeholders for their long-term support and trust. We formulate the sustainable development strategy based on the valuable advice from various parties. Accordingly, we can respond to the expectations and needs of our stakeholders and create long-term value for them. In addition, we are committed to practicing corporate social responsibilities.

HKEx's Environmental, Social and Governance Reporting Guide

Subject areas, aspects, general disclosures and key performance indicators		**Chapter/statement**	**Page number**
A. Environment			
Aspect A1: Emissions			
General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to exhaust gas and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes, etc..		Environmental protection and ecology	p.57-59
Key performance indicator A1.1	The types of emissions and respective emissions data.	Temporarily not disclosed in this report	
Key performance indicator A1.2	Greenhouse gas emissions and density.	Temporarily not disclosed in this report	
Key performance indicator A1.3	The total amount and density of hazardous waste produced.	Temporarily not disclosed in this report	
Key performance indicator A1.4	The total amount and density of non-hazardous waste produced.	Temporarily not disclosed in this report	
Key performance indicator A1.5	Description of measures to mitigate emissions and the results achieved.	Temporarily not disclosed in this report	

Subject areas, aspects, general disclosures and key performance indicators		Chapter/statement	Page number
Key performance indicator A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Temporarily not disclosed in this report	
Level A2: Use of Resources			
General disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		Resources and energy conservation	p.59-61
Key performance indicator A2.1	Total direct and/or indirect energy consumption and intensity by type.	Temporarily not disclosed in this report	
Key performance indicator A2.2	Total water consumption and intensity.	Temporarily not disclosed in this report	
Key performance indicator A2.3	Description of energy use efficiency initiatives and the results achieved.	Resources and energy conservation	p.60
Key performance indicator A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and the results achieved.	Temporarily not disclosed in this report	
Key performance indicator A2.5	The total packaging material used for finished product and the amount per unit produced.	Temporarily not disclosed in this report	
Level A3: Environment and Natural Resources			
General disclosure The policies on minimizing the issuer's significant impact on the environment and natural resources.		Environmental Protection and ecology	p.57-59
Key performance indicator A3.1	Description of the significant impacts of operational activities on the environment and natural resources and the actions taken to manage them.	Temporarily not disclosed in this report	

Subject areas, aspects, general disclosures and key performance indicators		Chapter/statement	Page number
B. Social			
Employment and Labor Practices			
Level B1: Employment			
General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.		Rewarding our employees, creating a happy workplace	p.51-52
Key performance indicator B1.1	Total workforce by gender, employment type, age group and geographical region.	This report discloses the total number of employees by age group	p.51
Key performance indicator B1.2	Employee turnover rate by gender, age group and geographical region.	Temporarily not disclosed in this report	
Level B2: Health and Safety			
General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Rewarding our employees, creating a happy workplace	p.54
Key performance indicator B2.1	The number and rate of work-related fatalities.	Rewarding our employees, creating a happy workplace	p.54
Key performance indicator B2.2	Lost days due to work injury.	Temporarily not disclosed in this report	
Key performance indicator B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Rewarding our employees, creating a happy workplace	p.54

Subject areas, aspects, general disclosures and key performance indicators		Chapter/statement	Page number
Level B3: Development and Training			
General disclosure Policies on improving employees' knowledge and skills for discharging duties at fulfilling work. Description of training activities.		Rewarding our employees, creating a happy workplace	p.53
Key performance indicator B3.1	The percentage of employees trained by gender and employee category.	Temporarily not disclosed in this report	
Key performance indicator B3.2	The average training hours completed per employee by gender and employee category.	Rewarding our employees, creating a happy workplace	p.53
Level B4: Labor Standards			
General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer. Relating to the preventing child and forced labor.		Rewarding our employees, creating a happy workplace	p.52
Key performance indicator B4.1	Description of measures to review employment practices to avoid child and forced labor.	Temporarily not disclosed in this report	
Key performance indicator B4.2	Description of steps taken to eliminate such practices when a violation is discovered.	Temporarily not disclosed in this report	
Operating Practices			
Level B5: Supply Chain Management			
General disclosure Polices on managing environmental and social risks of the supply chain.		Responsible and lawful procurement	p.55-56
Key performance indicator B5.1	Number of suppliers by geographical region.	Responsible and lawful procurement	p.55
Key performance indicator B5.2	Description of the practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Temporarily not disclosed in this report	

Subject areas, aspects, general disclosures and key performance indicators		Chapter/statement	Page number
Level B6: Product Responsibility			
General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the health and safety, advertising, labeling and privacy matters relating to the products and services provided and methods of redress.		Continuous improvement and striving for excellence Service innovation, customer satisfaction	p.56 p.57
Key performance indicator B6.1	The percentage of total products sold or shipped, subject to recalls for safety and health reasons.	Continuous improvement and striving for excellence	p.56
Key performance indicator B6.2	The number of products and services related complaints received and how they are dealt with.	Temporarily not disclosed in this report	
Key performance indicator B6.3	Description of practices relating to observing and protecting intellectual property rights.	Temporarily not disclosed in this report	
Key performance indicator B6.4	Description of quality assurance process and recall procedures	Temporarily not disclosed in this report	
Key performance indicator B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Continuous improvement and striving for excellence	p.57
Level B7: Anti-corruption			
General disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the prevention of bribery, extortion, fraud and money laundering.		Business ethics and anti-corruption	p.54

Subject areas, aspects, general disclosures and key performance indicators		**Chapter/statement**	**Page number**
Key performance indicator B7.1	The number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period, and the outcomes of the cases whistle-blowing.	Temporarily not disclosed in this report	
Key performance indicator B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Temporarily not disclosed in this report	
Community			
Level B8: Community Investment			
General disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its business activities take into consideration the communities' interests.		Donations and community investments	p.61
Key performance indicator B8.1	Focus areas of contribution.	Temporarily not disclosed in this report	
Key performance indicator B8.2	Resources contributed to the focus area.	Temporarily not disclosed in this report	

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF DONGWU CEMENT INTERNATIONAL LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Dongwu Cement International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 74 to 138, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters *(Continued)*

Impairment assessment of goodwill and patent

Refer to notes 5 (f),17 and 19 to the consolidated financial statements.

The carrying amounts of goodwill and patent of the Group as at 31 December 2016 were approximately RMB9,396,000 and RMB5,869,000 respectively, which were allocated to the cash generating unit ("CGU") of the Biofit Group as described in Note 17 to the consolidated financial statements, for the purpose of impairment assessment.

The Company's management made significant judgement and assumptions in determining the recoverable amount of the CGU based on a value-in-use calculation, and concluded that there was no impairment in respect of the goodwill and patent as at 31 December 2016.

We have identified the impairment of goodwill and patent as a key audit matter because of the significant judgement and assumptions involved in the determination of the recoverable amount of the CGU. Significant judgement was involved on the key assumptions underlying the future cash flow projections, the discount rates applied and growth rates applied to the period beyond the fifth year to those future cash flows projections.

Our response:

Our audit procedures in relation to management's impairment assessment of goodwill and patent included:

– Checking the arithmetic accuracy of the value-in-use calculation;

– Evaluating the competence, capabilities and objectivity of the independent professional valuer engaged by the Group to assist with the value-in-use calculation;

– Assessing the reasonableness of the discount rate used and the growth rate applied to the period beyond the fifth year, by reviewing management's assumptions underlying the cash flow projections and comparing them to independent market data and industry forecasts;

– Evaluating the reasonableness of management's key assumptions of the underlying cash flow projections for the five-year period, by comparing historical budgets and achievements and the reasons for any deviations; as well as agreeing the cash flow projections against the latest budgets approved by the respective board of directors;

– Obtaining and evaluating management's sensitivity analysis to assess the impact of reasonably possible changes to the key assumptions of cash flow projections, discount rate and growth rate on the recoverable amount of the CGU; and

– Reviewing the appropriateness of disclosure on impairment assessment.

Key Audit Matters *(Continued)*

Impairment assessment of trade, loans and other receivables

Refer to notes 5(c) and 24 to the consolidated financial statements.

The carrying amount of the Group's gross trade, loans and other receivables as at 31 December 2016 was approximately RMB156,196,000, RMB66,400,000 and RMB15,627,000, respectively, and provisions for impairment loss thereon was approximately RMB2,218,000, RMB Nil and RMB558,000, respectively.

Management reviews trade, loans and other receivables for objective evidence of impairment on a periodic basis. In determining this, management makes significant judgement on the credit worthiness of the debtors, including whether there have been significant adverse changes in the debtors' financial condition affecting the debtors' ability to settle the debts. Where there is objective evidence of impairment, management estimates the amount of impairment loss that should be made against the receivables, taking into consideration the ages of trade, loans and other receivables and the estimation of future cash flows.

We have identified the impairment assessment of trade, loans and other receivables as a key audit matter because of significance of the carrying amount of trade, loans and other receivables to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in identification of impairment indicators and the determination of the amount of impairment loss.

Our response:

Our procedures in relation to management's impairment assessment of trade and loans receivables included:

– Analysing and testing, on a sample basis, the accuracy of the ageing profiles of trade, loans and other receivables by checking to the underlying sales invoices and other source documents, to ensure that it was appropriate for management to use them for impairment assessment;

– Conducting a detailed discussion with management on significant overdue trade, loans and other receivables as to whether these aged receivables were impaired; and

– Reviewing the adequacy and appropriateness of the provision for impairment made by management with reference to the ageing profile, settlement records, subsequent settlements and other facts and circumstances currently available for the significant overdue receivables.

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Definitions, Corporate Information, Financial Highlights, Business Review, Management Discussion and Analysis, and Directors and Senior Management Profiles (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and Chairman's Statement, Directors' Report, Corporate Governance Report and Environmental, Social and Governance Report which are expected to be made available to us shortly after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Other Information in the Annual Report *(Continued)*

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, Directors' Report, Corporate Governance Report and Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to audit committee of the Company (the "Audit Committee") and take appropriate action considering our legal rights and obligations.

Directors' responsibilities for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's responsibilities for the audit of the consolidated financial statements *(Continued)*

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Tang Tak Wah
Practising Certificate Number P06262

Hong Kong, 28 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	7	**255,914**	222,512
Cost of sales		**(231,164)**	(226,382)
Gross profit/(loss)		**24,750**	(3,870)
Distribution expenses		**(2,702)**	(1,763)
Administrative expenses		**(25,400)**	(22,194)
Other income	8	**11,506**	10,628
Other gains – net	9	**478**	4,178
Operating income/(loss)		**8,632**	(13,021)
Finance income		**402**	585
Finance expenses		**(3,377)**	(3,511)
Finance expenses – net	10	**(2,975)**	(2,926)
Share of results of associates	21	**–**	(163)
Profit/(loss) before income tax (expense)/credit	11	**5,657**	(16,110)
Income tax (expense)/credit	15	**(1,442)**	4,373
Profit/(loss) and total comprehensive income for the year		**4,215**	(11,737)
Profit/(loss) and total comprehensive income for the year attributable to:			
– Owners of the Company		**2,564**	(11,737)
– Non-controlling interests		**1,651**	–
		4,215	(11,737)
Earning/(loss) per share			
– Basic and diluted (RMB per share)	13	**0.005**	(0.021)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**111,441**	127,862
Land use rights	18	**16,104**	16,508
Goodwill	17	**9,396**	9,396
Intangible assets	19	**6,894**	7,944
Available-for-sale financial assets	22	**–**	2,898
Amount due from grantor for contract work	24	**6,372**	–
Other receivables	24	**–**	60,123
Total non-current assets		**150,207**	224,731
Current assets			
Available-for-sale financial assets	22	**2,898**	–
Inventories	23	**22,703**	22,649
Trade and other receivables	24	**282,133**	173,320
Short-term bank deposits	26	**31,000**	30,000
Cash and cash equivalents	27	**18,949**	52,099
Total current assets		**357,683**	278,068
Current liabilities			
Trade and other payables	28	**55,956**	70,509
Income tax payable		**3,388**	3,388
Borrowings	29	**54,000**	60,000
Total current liabilities		**113,344**	133,897
Net current assets		**244,339**	144,171
Total assets less current liabilities		**394,546**	368,902

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Non-current liabilities			
Deferred tax liabilities	*30*	**6,514**	5,085
Total non-current liabilities		**6,514**	5,085
Net assets		**388,032**	363,817
EQUITY			
Equity attributable to owners of the Company			
Share capital	*31*	**4,490**	4,490
Reserves		**368,413**	359,327
		372,903	363,817
Non-controlling interests		**15,129**	–
Total equity		**388,032**	363,817

On behalf of the Board

Xie Yingxia
Director

Ling Chao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital RMB'000	Other reserves RMB'000 (note 32)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Equity attributable to owners of the Company					
At 1 January 2015		4,174	282,252	48,506	334,932	–	334,932
Issue of shares	*31*	316	40,306	–	40,622	–	40,622
Loss and total comprehensive income for the year		–	–	(11,737)	(11,737)	–	(11,737)
At 31 December 2015 and 1 January 2016		4,490	322,558	36,769	363,817	–	363,817
Profit and total comprehensive income for the year		–	–	2,564	2,564	1,651	4,215
Appropriations to statutory reserves	*32(a)*	–	451	(451)	–	–	–
Capital contribution from a non-controlling interest in a subsidiary		–	–	6,522	6,522	13,478	20,000
At 31 December 2016		4,490	323,009	45,404	372,903	15,129	388,032

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Profit/(loss) before income tax (expense)/credit		**5,657**	(16,110)
Adjustment for:			
Depreciation of property, plant and equipment	*16*	**14,251**	15,516
Amortisation of land use rights	*18*	**404**	404
Amortisation of intangibles assets	*19*	**1,841**	1,243
Provision for impairment for trade receivables	*24*	**852**	690
Provision for impairment for other receivables		**558**	–
Loss on disposal of property, plant and equipment	*9*	**33**	10
Gain on disposal of a subsidiary	*35*	**(511)**	–
Finance income	*10*	**(402)**	(585)
Finance expenses	*10*	**3,377**	3,511
Share of results of associates		**–**	163
Gain on disposal of available-for-sale financial asset		**–**	(4,188)
Interest income from loans receivable	*8*	**(6,313)**	(6,306)
Operating profit/(loss) before working capital changes		**19,747**	(5,652)
(Increase)/decrease in inventories		**(54)**	10,720
(Increase)/decrease in trade and other receivables		**(59,279)**	41,854
Decrease in trade and other payables		**(5,637)**	(6,480)
Cash (used in)/generated from operating activities		**(45,223)**	40,442
Interest paid		**(3,377)**	(3,511)
Income tax refund/(paid)		**8**	(250)
Net cash (used in)/generated from operating activities		**(48,592)**	36,681
Cash flows from investing activities			
Interest received		**402**	585
Purchases of property, plant and equipment	*16*	**(2,975)**	(20,691)
Proceeds from disposal of property, plant and equipment		**33**	–
Proceeds from disposal of available-for-sale financial asset	*22*	**–**	5,554
Proceeds from disposal of a subsidiary (net of cash and cash equivalent disposed)	*35*	**4,982**	–
Additional short-term bank deposits made	*26*	**(1,000)**	(10,000)
Payments for acquisition of subsidiaries (net of cash and cash equivalent acquired)	*34*	**–**	(20,872)
Net cash generated from/(used in) investing activities		**1,442**	(45,424)

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from issues of shares		**–**	40,622
Proceeds from bank borrowings		**55,000**	60,000
Repayments for bank borrowings		**(61,000)**	(59,900)
Capital contribution from a non-controlling interest in a subsidiary		**20,000**	–
Net cash generated from financing activities		**14,000**	40,722
Net (decrease)/increase in cash and cash equivalents		**(33,150)**	31,979
Cash and cash equivalents at beginning of the year		**52,099**	20,120
Cash and cash equivalents at end of the year		**18,949**	52,099
Analysis of the balances of cash and cash equivalents			
Cash and bank balances	*27*	**18,949**	52,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Dongwu Cement International Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 29 November 2011. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 June 2012. The Company's registered office is at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. In the directors' opinion, the immediate and ultimate holding company of the Company is Goldview Development Limited, a company incorporated in the British Virgin Islands (the "BVI").

The Company is an investing holding company. The Company and its subsidiaries as mentioned in note 20 are collectively referred to as the "Group". The Group is principally engaged in the production and sales of cement, and provision of sewage and sludge treatment operation and construction services. The principal place of the Group's business is Fenhu Economic Development Zone, Wujiang, Jiangsu Province, People's Republic of China (the "PRC").

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

(a) Adoption of amendments to HKFRSs – first effective on 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The adoption of these amendments has no material impact on the Group's financial statements.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Statement of Cash Flows[1]
Amendments to HKAS 12	Income Taxes[1]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 7 – Statement of Cash Flows

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Income Taxes

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective* *(Continued)*

HKFRS 9 – Financial Instruments *(Continued)*

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective* *(Continued)*

Amendments to HKFRS 15 – Revenue from Contracts with customers *(Continued)*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. Basis of preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

(b) *Basis of measurement*

The consolidated financial statements have been prepared under historical cost basis.

(c) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), and all values are rounded to the nearest thousand except when otherwise indicated. The consolidated financial statements are presented in Renminbi ("RMB") since majority of the Group's operation are carried out in RMB. The Company's functional currency is Hong Kong Dollars ("HK$") since majority of the activities of the Company are conducted in HK$.

4. Significant accounting policies

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiary or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4. Significant accounting policies *(Continued)*

(b) Subsidiary

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (1) power over the investee, (2) exposure, or rights, to variable returns from the investee, and (3) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position (note 33), investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

4. Significant accounting policies *(Continued)*

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value-in-use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. Significant accounting policies *(Continued)*

(e) Property, plant and equipment (Continued)

Property, plant and equipment are depreciated so as to write off their cost or estimated residual value over their estimated useful lives on straight-line method. The estimated useful lives, estimated residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The estimated useful lives are as follows:

Property and plant	20 years
Machinery	10 years
Motor vehicles	5 years
Furniture, fittings and equipments	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress ("CIP") represents materials for construction or sewage treatment plant under construction and is stated at cost less impairment losses. CIP is not depreciated and is reclassified to the appropriate category of property, plant and equipment when the construction work is completed and ready for use.

Gain or loss on disposals of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Land use rights

Land use rights represent prepaid operating lease payments. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on straight-line method over the lease period of 50 years.

(g) Intangible assets

Acquired intangible assets are recognised initially at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives as follows:

Patent	5 years
Software	5 years
Sewage treatment concession right	8 years

The Group's intangible assets on sewage treatment concession right represent the unconditional rights to operate sewage treatment plant and right to charge users in the PRC. These intangible assets are amortised on straight-line basis over the terms of operation. Both period and method of amortisation are reviewed annually. Intangible assets with finite useful lives are tested for impairment as described in note 4(o).

4. Significant accounting policies *(Continued)*

(h) Leasing

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentive received from the lessor are charged to profit or loss on straight-line method over the lease terms.

Where the Group is the lessor, rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

(i) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

4. Significant accounting policies *(Continued)*

(i) Financial instruments *(Continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Available-for-sale financial assets

Available-for-sale equity investment is carried at cost. Impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

4. Significant accounting policies *(Continued)*

(i) Financial instruments (Continued)

(iii) Financial liabilities

Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

This is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. Effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of director issue costs.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contact is discharged, cancelled or expired.

(j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and necessary to make the sale.

4. Significant accounting policies *(Continued)*

(k) Revenue recognition

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Revenue from provision of sewage and sludge treatment is recognised when services are rendered.

Revenue from sewage and sludge treatment construction service is recognised by reference to the percentage of completion of the contracts at the reporting date. The stage of completion is measured by reference to the contract cost incurred as a percentage of total actual or estimated project cost (note 4(s)).

Interest income is accrued on time-proportion basis on the principal outstanding at the applicable interest rate.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4. Significant accounting policies *(Continued)*

(m) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into RMB at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

4. Significant accounting policies *(Continued)*

(n) Employee benefits

(i) Pension schemes

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

(ii) Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

(o) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less cost to sell and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Significant accounting policies *(Continued)*

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(s) Construction contracts

The balances of construction contracts represent the net amount of construction costs incurred to date and recognised profits (less recognised losses), less progress billings and provision for foreseeable contract losses. Construction contract costs are valued at actual cost, and comprise direct materials, direct labour costs, construction machinery costs, other direct costs and construction overheads. For an individual contract whose costs incurred to date plus recognised profits (less recognised losses) exceed progress billings, the gross amount is presented as amounts due from customers for construction work. For an individual contract whose progress billings exceed costs incurred to date plus recognised profits (less recognised losses), the gross amount due to customers for contract work in advance from customers is presented as advances from customers.

4. Significant accounting policies *(Continued)*

(s) ***Construction contracts*** *(Continued)*

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(t) ***Segment reporting***

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business component and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its HKFRSs financial statements, except that administrative expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets exclude cash and bank balances, and corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude current liabilities and corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment.

4. Significant accounting policies *(Continued)*

(u) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

4. Significant accounting policies *(Continued)*

(u) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

(v) Build-Operate-Transfer ("BOT") arrangements

BOT arrangements are accounted for as follows if:

(i) the grantor controls or regulates what services the operator must provide with the assets (i.e. sewage treatment plant), to whom it must provide them, and at what price; and

(ii) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the assets at the end of the term of the arrangement.

The Group's rights over the assets

Assets constructed by the Group under BOT arrangements are not recognised as property, plant and equipment of the Group because the contractual service arrangement does not convey the right to control the use of the assets to the Group. The operator has access to operate the assets to provide the service on behalf of the grantor in accordance with the terms specified in the contract.

Considerations received or receivable by the Group for the construction services

Considerations received or receivable by the Group for the construction services rendered under BOT arrangement are recognised at fair value as financial assets or/and intangible assets.

A financial asset (loan and receivable) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law.

4. Significant accounting policies *(Continued)*

(v) Build-Operate-Transfer ("BOT") arrangements *(Continued)*

Considerations received or receivable by the Group for the construction services *(Continued)*

The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amount received and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the assets to be constructed meets specified quality of efficiency requirements. The financial asset (loan and receivable) is accounted for in accordance with the policy set out for "Financial instruments" in note 4 (i).

An intangible asset (concession right) is recognised to the extent that the Group receives a right to charge for the service, which is not an unconditional right to receive cash because the amounts are contingent on the extent of the service used. The intangible asset (concession right) is accounted for in accordance with the policy set out for "Intangible assets" in note 4(g).

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components are recognised initially at fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" in note 4(s).

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" in note 4(k).

5. Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. Critical accounting estimates and judgments *(Continued)*

(a) Carrying value of property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value-in-use of an asset or the CGU to which an asset relates. In estimating the recoverable amounts of assets or CGUs, various assumptions, including future cash flows to be associated with non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

(b) Useful lives of machinery

Management determines the estimated useful lives and related depreciation charges for its machinery. This estimate is based on the historical experience of the actual useful lives of machinery of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. Management will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated impairment of trade, loans and other receivables

The Group maintains a provision for impairment of trade, loans and other receivables arising from the inability of its customers and debtors to make the required repayments. The Group makes its estimates mainly based on the ageing of its trade receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that actual impairment loss might be higher than expected, the Group would revise the basis of making the impairment. As at 31 December 2016, provision for impairment on trade, loan receivables and other receivables amounted to RMB2,218,000 (2015: RMB1,366,000), Nil (2015: Nil) and RMB558,000 (2015: Nil) respectively.

(d) Estimated write-down of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the management's judgement and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

5. Critical accounting estimates and judgments *(Continued)*

(e) *Income taxes*

The Group is mainly subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax charges based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

(f) *Estimated impairment of goodwill and intangible assets*

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amounts of the CGUs to which goodwill and intangible assets relate. The recoverable amount is the higher of the fair value less costs of disposal and value-in-use of a CGU. In estimating the recoverable amounts of CGUs, various assumptions, including future cash flows to be associated with non-current assets, growth rates and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts are revised, and this may have an impact on the Group's results of operations or financial position.

(g) *Classification between intangible asset or financial asset or property, plant and equipment under BOT arrangement*

The Group makes judgement in determining whether a BOT arrangement entered with a private entity is classified as an intangible asset by analogy to HK (IFRIC) Interpretation 12, or financial asset, or as property, plant and equipment in accordance with the applicable accounting standards. For BOT arrangement where (a) the grantor controls or regulates what service the operator must provide with the infrastructure, to whom it must provide them, and at what price; (b) the grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, no property, plant and equipment is recognised.

The Group further determines whether a financial asset exists to the extent that (a) it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor; (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group will otherwise recognise a BOT arrangement as an intangible asset if the above conditions are not fulfilled.

6. Segment information

The chief operating decision-maker for application of HKFRS 8 is identified by the Board. The segments are managed separately as each business offers different products and services and requires different business strategies. The Group's product and service lines identified as reportable operating segments are as follows:

(i) Production and sale of cement; and

(ii) Provision of sewage and sludge treatment operation and construction services.

6. Segment information *(Continued)*

All of the revenue from external customers and non-current assets of the Group are derived from activities located in the PRC. Accordingly, no geographical information is presented.

Year ended 31 December 2016

	Production and sale of cement *RMB'000*	Provision of sewage and sludge treatment operation and construction services *RMB'000*	Total *RMB'000*
Segment revenue	222,543	33,371	255,914
Segment results	9,233	512	9,745
Unallocated expenses			(4,088)
Income tax (expense)/credit	(1,698)	256	(1,442)
Profit for the year			4,215
As at 31 December 2016			
Segment assets	433,251	67,997	501,248
Unallocated assets			6,642
Total assets			507,890
Segment liabilities	101,057	18,119	119,176
Unallocated liabilities			682
Total liabilities			119,858

6. Segment information *(Continued)*

Year ended 31 December 2015

	Production and sale of cement *RMB'000*	Provision of sewage and sludge treatment operation and construction services *RMB'000*	Total *RMB'000*
Segment revenue	207,410	15,102	222,512
Segment results	(11,879)	(1,536)	(13,415)
Unallocated expenses			(2,695)
Income tax credit	3,981	392	4,373
Loss for the year			(11,737)
As at 31 December 2015			
Segment assets	429,010	63,740	492,750
Unallocated assets			10,049
Total assets			502,799
Segment liabilities	103,512	34,630	138,142
Unallocated liabilities			840
Total liabilities			138,982

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both periods. Revenue derived from one of the external customers amounted to 17.2% of the Group's revenue for the year ended 31 December 2016 (2015: 19.7%).

7. Revenue

An analysis of revenue is as follows:

	2016	2015
	RMB'000	*RMB'000*
Sale of Ordinary Portland cement strength class 42.5	**121,004**	95,560
Sale of Composite Portland cement strength class 32.5	**99,811**	111,850
Sale of Clinker	**1,728**	–
Provision of sewage and sludge treatment operation and construction services	**24,915**	15,102
Sewage treatment construction services-financial asset	**7,431**	–
Sewage treatment construction services-intangible asset	**1,025**	–
	255,914	222,512

8. Other income

	2016	2015
	RMB'000	*RMB'000*
Tax refund *(Note(a))*	**2,077**	2,493
Government grants *(Note(b))*	**2,039**	900
Income from loans to Dongtong (Note 24)	**6,313**	6,306
Exchange gains	**454**	844
Rental income	**373**	–
Others	**250**	85
	11,506	10,628

Note:

(a) This is refund of value added tax ("VAT"). Pursuant to the notice regarding policies relating to VAT on Products Made through the List of Comprehensive Utilisation of Resources and Certain Other Services issued by the Ministry of Finance and the State Administration of Taxation (財政部、國家稅務總局關於資源綜合利用產品和勞務增值稅優惠目錄的通知) promulgated on 12 June 2015, the Group's PRC subsidiary, Dongwu Cement, is eligible for VAT refund for utilising recycled materials as raw materials for producing cement. VAT refund is recognised as other income upon the receipt of tax refund approval from the tax bureau.

(b) The amount represents the government grant for the Group having reduced air pollutant emission and carried out innovation.

9. Other gains – Net

	2016 RMB'000	2015 RMB'000
Gain on disposal of available-for-sales financial assets *(Note 22)*	–	4,188
Gain on disposal of a subsidiary	511	–
Losses on disposals of property, plant and equipment	(33)	(10)
	478	4,178

10. Finance expenses – Net

	2016 RMB'000	2015 RMB'000
Finance expenses:		
– Borrowings wholly repayable within 5 years	(3,377)	(3,511)
Finance income:		
– Bank deposits	402	585
Net finance expenses	(2,975)	(2,926)

11. Profit/(loss) before income tax (expense)/credit

The Group's profit/(loss) before income tax (expense)/credit is arrived at after charging:

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**206,604**	215,791
Depreciation of property, plant and equipment	**14,251**	15,516
Amortisation of land use rights	**404**	404
Amortisation of intangible assets	**1,841**	1,243
Provision for impairment for trade receivables	**852**	690
Provision for impairment for other receivables	**558**	–
Minimum lease payments under operating leases for buildings	**2,069**	798
Research and development expenses	**31**	439
Employee expenses (including directors' remuneration)		
– wages and salaries	**13,366**	13,452
– pension scheme contribution	**2,869**	2,745
Auditors' remuneration	**994**	960

12. Dividends

No dividends were declared by the Board of the Company for the years ended 31 December 2016 and 2015.

13. Earning/(loss) per share

Basic earning/(loss) per share is calculated by dividing the earning/(loss) attributable to owners of the Company of earning RMB2,564,000 (2015: loss RMB11,737,000) by the weighted average number of ordinary shares in issue during the year of 552,000,000 (2015: 547,148,000) excluding ordinary shares purchased by the Group and held as treasury shares if any.

As there were no dilutive options and other dilutive potential shares in issue for the years ended 31 December 2016 and 2015, diluted earning/(loss) per share is the same as basic earning/(loss) per share.

14. Directors' and senior management's emoluments and five highest paid individuals

(a) *Directors' emoluments*

Directors' emolument for the year, disclosed pursuant to the Listing Rules and Section 383 of the Hong Kong Companies Ordinance, (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) is as follows:

Name	Fees	Salary, allowance and other benefits	Employer's contribution to pension scheme and discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016				
Executive directors				
Ms. Xie Yingxia	–	229	–	229
Mr. Jin Chungen *(note (i))*	–	180	–	180
Mr. Ling Chao	–	205	–	205
Mr. Peng Cheng *(note (ii))*	–	333	3	336
Mr. Wong Hin Shek *(note (iii))*	–	174	–	174
Mr. Wang Jun *(note (iii))*	–	72	–	72
Non-executive director				
Mr. Tseung Hok Ming ("Mr. Tseung")	205	–	–	205
Independent non-executive directors				
Mr. Cao Guoqi	154	–	–	154
Mr. Cao Kuangyu	154	–	–	154
Mr. Lee Ho Yiu Thomas	154	–	–	154
	667	1,193	3	1,863

Notes:

(i): Resigned on 14 November 2016

(ii): Appointed on 17 October 2016

(iii): Appointed on 14 November 2016

14. Directors' and senior management's emoluments and five highest paid individuals *(Continued)*

(a) Directors' emoluments (Continued)

Name	Fees	Salary, allowance and other benefits	Employer's contribution to pension scheme and discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2015				
Executive directors				
Ms. Xie Yingxia	–	193	–	193
Mr. Jin Chungen	–	193	–	193
Mr. Ling Chao *(note (i))*	–	113	–	113
Non-executive directors				
Mr. Tseung Hok Ming	193	–	–	193
Mr. Yang Bin *(note (ii))*	80	–	–	80
Independent non-executive directors				
Mr. Cao Guoqi	145	–	–	145
Mr. Cao Kuangyu	145	–	–	145
Mr. Lee Ho Yiu Thomas	145	–	–	145
	708	499	–	1,207

Notes:

(i): Appointed on 28 May 2015

(ii): Resigned on 28 May 2015

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2016 (2015: nil).

14. Directors' and senior management's emoluments and five highest paid individuals *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 included four of the directors of the Company (2015: four).

Emoluments paid and payable to the remaining one (2015: one) individual for the year ended 31 December 2016 are as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries and other benefits	**205**	193
Employer's contribution to pension scheme	**–**	–
	205	193

Emolument paid to the above non-director highest paid individual fell within the band of Nil-HK$1,000,000 (2015: Nil-HK$1,000,000).

During the year, no emolument was paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2015: nil).

15. Income tax expense/(credit)

Taxes on profits assessable in the PRC have been calculated at the applicable tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the relevant laws and regulations in the PRC, the PRC enterprise income tax rate of all the PRC subsidiaries was 25% on their taxable profits for the years ended 31 December 2016 and 2015 except for Shanghai Biofit charged at 15% as it successfully obtained the "National High Technology Enterprise" status and the applicable PRC enterprise income tax rate was 15% for the year ended 31 December 2016 (2015: 15%).

The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the BVI during the year ended 31 December 2016 (2015: Nil). No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: Nil).

15. Income tax expense/(credit) *(Continued)*

Income tax (expense)/credit charged to the consolidated statement of comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax		
– Current year	–	–
– (Over)/under provision in respect of prior years	(8)	114
	(8)	114
Deferred tax *(Note 30)*	1,450	(4,487)
Income tax expense/(credit)	1,442	(4,373)

Income tax expense/(credit) for the year can be reconciled to the Group's profit/(loss) before income tax expense/(credit) in the consolidated statement of comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Profit/(loss) before income tax expense/(credit)	5,657	(16,110)
Tax calculated at the PRC profits tax rate of 25% (2015: 25%)	1,414	(4,028)
Effect of different tax rates in other jurisdictions	298	594
Tax effect of expenses not deductible for tax purposes	897	228
Utilisation of tax losses previously not recognised	(447)	(284)
Tax effect of tax loss not recognised	248	1,529
Tax effect of income not taxable for tax purposes	(1,179)	(992)
Tax effect of share of results of associates	–	41
Income tax on concession rates	(187)	–
Effect of temporary difference not recognised	–	(392)
Under provision in respect of prior years	(8)	114
Deferred taxation on withholding tax	406	(1,183)
Income tax expense/(credit)	1,442	(4,373)

16. Property, plant and equipment

	Construction in progress	Properties and plant	Machinery	Motor vehicles	Furniture, fittings and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2015						
Opening net book amount	–	79,360	39,518	1,302	1,376	121,556
Addition from acquired of subsidiaries *(Note 34)*	–	–	–	569	572	1,141
Additions	5,079	3,346	10,918	–	1,348	20,691
Disposals	–	–	–	–	(10)	(10)
Depreciation	–	(6,861)	(7,454)	(563)	(638)	(15,516)
Closing net book amount	5,079	75,845	42,982	1,308	2,648	127,862
At 31 December 2015						
Cost	5,079	148,923	202,690	2,942	11,626	371,260
Accumulated depreciation	–	(73,078)	(159,708)	(1,634)	(8,978)	(243,398)
Net book amount	5,079	75,845	42,982	1,308	2,648	127,862
Year ended 31 December 2016						
Opening net book amount	**5,079**	**75,845**	**42,982**	**1,308**	**2,648**	**127,862**
Additions	**–**	**118**	**2,238**	**561**	**58**	**2,975**
Reclassification *(note)*	**(5,079)**	**–**	**–**	**–**	**–**	**(5,079)**
Disposals	**–**	**–**	**–**	**(63)**	**(3)**	**(66)**
Depreciation	**–**	**(7,077)**	**(5,877)**	**(618)**	**(679)**	**(14,251)**
Closing net book amount	**–**	**68,886**	**39,343**	**1,188**	**2,024**	**111,441**
At 31 December 2016						
Cost	**–**	**149,041**	**204,928**	**3,336**	**11,680**	**368,985**
Accumulated depreciation	**–**	**(80,155)**	**(165,585)**	**(2,148)**	**(9,656)**	**(257,544)**
Net book amount	**–**	**68,886**	**39,343**	**1,188**	**2,024**	**111,441**

Note:

It represents transfer to amount due from grantor for contract work and sewage treatment concession right classified as intangible assets (note 19) since it is consumed by BOT project upon its commencement in 2016.

17. Goodwill

	2016 RMB'000	2015 RMB'000
At 1 January	**9,396**	–
Arising from business combination *(Note 34)*	**–**	9,396
At 31 December	**9,396**	9,396

Goodwill arose from a business combination during the year ended 31 December 2015 (Note 34) and it was solely allocated to the CGU, namely the Biofit Group (as defined in Note 34), and together with the intangible assets comprising patent and software (Note 19) acquired in the same business combination and related to the same CGU, for the purpose of impairment testing.

The recoverable amount of the CGU has been determined from a value-in-use calculation based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2015: 1%).

	2016 RMB	2015 RMB
Discount rate	**18%**	21%
Operating margin*	**6%-13%**	21%-23%
Growth rate within the five-year period	**3%-30%**	10%-30%

* defined as profit before income tax expense divided by revenue

The discount rate is pre-tax and reflects specific risks relating to the CGU. The operating margin and growth rate within the five-year period were determined based on management expectation and the result of the market research and prediction.

18. Land use rights

	2016 RMB'000	2015 RMB'000
At 1 January	**16,508**	16,912
Amortisation	**(404)**	(404)
At 31 December	**16,104**	16,508

18. Land use rights *(Continued)*

The Group's land use rights represent prepaid operating lease payments in the PRC on the lease of between 10 to 50 years.

Amortisation of land use rights is included in administrative expenses in the consolidated statement of comprehensive income.

19. Intangible assets

	Software	**Patent**	**Sewage treatment concession right** *(Note)*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2015	–	–	–	–
Acquisition of subsidiaries *(Note 34)*	6	9,181	–	9,187
At 31 December 2015 and 1 January 2016	6	9,181	–	9,187
Additions	–	–	1,025	1,025
Disposal of subsidiary *(Note 35)*	(6)	(302)	–	(308)
At 31 December 2016	–	8,879	1,025	9,904
Accumulated amortisation:				
At 1 January 2015	–	–	–	–
Amortisation	2	1,241	–	1,243
At 31 December 2015 and 1 January 2016	2	1,241	–	1,243
Amortisation	2	1,839	–	1,841
Eliminated on disposal of subsidiary *(Note 35)*	(4)	(70)	–	(74)
At 31 December 2016	–	3,010	–	3,010
Net book value:				
At 31 December 2016	–	5,869	1,025	6,894
At 31 December 2015	4	7,940	–	7,944

Note: This represents the rights to operate sewage treatment plant in the PRC obtained in respect of its BOT arrangement described in Note 24(ii) below. The balance represents the portion of consideration receivable by the Group for the construction service rendered of which the Group has no unconditional right to receive cash from the user based on usage.

20. Particulars of subsidiaries

The particulars of the Company's subsidiaries as at 31 December 2016 are as follow:

Name	Place and date of incorporation	Place of operation, principal activities and type of entity	Particulars of issued and paid-in capital/ registered capital	Equity interest held	
				Direct	Indirect
Dongwu International Investment Limited ("Dongwu Investment")	British Virgin Islands ("BVI"), 29 November 2011	Investment holding in Hong Kong, a limited liability company	USD50,000	100%	–
Asia Jumbo Limited ("Asia Jumbo")	BVI 6 January 2016	Investment holding in Hong Kong, a limited liability company	USD100	100%	–
Dongwu Cement (Hong Kong) Limited ("Dongwu HK")	Hong Kong, 16 December 2011	Investment holding in Hong Kong, a limited liability company	HK$1	–	100%
Glory Metro Limited ("Glory Metro")	Hong Kong, 15 November 2016	Investment holding in Hong Kong, a limited liability company	HK$100	–	100%
蘇州東吳水泥有限公司 (Suzhou Cement Co., Ltd.*, "Dongwu Cement")	PRC, 5 June 2003	Production and sales of cement in the PRC, a limited liability company	USD29,000,000	–	100%
Dongwu Science & Technology Investment Company Limited ("Dongwu Technology")	Hong Kong, 2 October 2013	Science and technology investment in Hong Kong, a limited liability company	HK$1	–	100%
熙華(上海)投資管理有限公司 (Xihua Shanghai Investment Management Co., Ltd.*, "Xihua Investment")	PRC, 19 November 2014	Investment management and consultation in the PRC, a limited liability company	USD10,000,000	–	100%

20. Particulars of subsidiaries *(Continued)*

Name	Place and date of incorporation	Place of operation, principal activities and type of entity	Particulars of issued and paid-in capital/ registered capital	Equity interest held Direct	Equity interest held Indirect
上海百菲特環保科技有限公司 (Shanghai Biofit Environmental Technology Co., Ltd.*, "Shanghai Biofit") *(note)*	PRC, 5 July 2011	Provision of sewage treatment operation and construction services in the PRC, a limited liability company	RMB19,468,680 (2015: RMB12,121,200)	–	62.26% (2015: 100%)
濟寧百菲特環保科技有限公司 (Jining Biofit Environmental Technology Co., Ltd.*, "Jining Biofit")	PRC, 11 January 2013	Provision of sewage treatment operation and construction services in the PRC, a limited liability company	RMB10,000,000	–	100%
紹興祥禹環保科技有限公司 (Shao Xing Xiang Yu Environmental Technology Co., Ltd.*, "Shao Xing Xiang Yu")	PRC, 30 April 2014	Provision of sewage treatment operation and construction services in the PRC, a limited liability company	RMB3,000,000	–	100%
蘇州熙華環保科技有限公司 (Suzhou Xihua Environmental Technology Co., Ltd.*, "Suzhou Xihua")	PRC, 6 April 2016	Research and development on sewage treatment technology and construction services in the PRC, a limited liability company	RMB10,000,000	–	100%

* The English translation of the entities names are for reference only. The official names of these entities are in Chinese.

Note:

The Group's equity interest in Shanghai Biofit decreased from 100% to 62.26% was due to capital injection by a non-controlling interest during the year.

21. Investments in associate

The amount recognised in the consolidated statement of comprehensive income is as follows:

	2016 RMB'000	2015 RMB'000
GinkgoPharma Co. Ltd. ("Ginkgo Pharma")	–	(163)
	–	(163)

The Group acquired 10% equity interest in GinkgoPharma for a cash consideration of RMB5,000,000 in 2013. In 2014, as the Group exercised significant influence by appointment of one director to the board of directors of GinkgoPharma out of a total of five directors and had the power to participate in the financial and operating policy decisions of GinkgoPharma, this investment was accounted for under equity method.

	2016 RMB'000	2015 RMB'000
At 1 January	–	4,427
Amount of the reporting entity's share of:		
Share of losses	–	(163)
Derecognition and reclassified to available-for-sale financial assets *(note)*	–	(4,264)
At 31 December	–	–

Note: In May 2015, the director of GinkgoPharma appointed by the Group was removed, and thereafter the Group had no representation in the board of directors in GinkgoPharma. As a result, management is in the opinion that the Group had no further significant influence over GinkgoPharma, and the carrying amount of investment was derecognised as available-for-sale financial assets on the same date.

22. Available-for-sale financial assets

	Note	2016 RMB'000	2015 RMB'000
At 1 January		**2,898**	–
During the year,			
– Derecognition of an associate *(Note 21)*	*(a)*	**–**	4,264
– Disposals	*(b)*	**–**	(1,366)
At 31 December	*(a)*	**2,898**	2,898

Notes:

(a) The balance as at 31 December 2016 and 2015 represents equity investment in GinkgoPharma (Note 21), which is engaged in manufacturing and trading of pharmaceutical products in the PRC. The carrying amount was reclassified from investment in associate as a result of loss of representation in the board of directors (Note 21) in 2015. The balance related to unlisted equity interest and is measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured. As management intends to dispose it in near future, the balance is classified as a current asset at 31 December 2016.

(b) On 20 September 2015, the Group entered into an agreement with an independent third party company and disposed of 2.78% equity interest in GinkgoPharma at a consideration RMB5,554,000. A disposal gain of RMB4,188,000 was thus recognised as other gain (Note 9) in 2015. As at 31 December 2016, the Group held 5.887% equity interest in GinkgoPharma (2015: 5.887%).

23. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**11,048**	11,913
Work-in-progress	**7,154**	3,282
Finished goods	**4,501**	7,454
	22,703	22,649

24. Trade and other receivables

	2016 RMB'000	2015 RMB'000
Trade and bills receivables due from third parties	**156,196**	124,313
Less: provision for impairment of trade receivables *(note (iv))*	**(2,218)**	(1,366)
Trade and bills receivables, net (note (i))	**153,978**	122,947
Amounts due from customers for other construction work (Note 25)	**32,534**	16,137
Amount due from grantor for contract work (note (ii))	**7,431**	–
Prepayments	**10,604**	13,672
Loans to 蘇州東通建設發展有限公司 (Suzhou Dongtong Construction and Development Co., Ltd.*,"Dongtong") *(note (iii))*	**66,400**	66,400
Advances to suppliers	**2,489**	5,230
Other receivables	**15,627**	9,057
Less: provision for impairment of other receivables *(note (iv))*	**(558)**	–
Prepayments, deposits and other receivables	**94,562**	94,359
Total trade and other receivables	**288,505**	233,443
Less: non-current portion		
– Amount due from grantor for contract work *(note (ii))*	**(6,372)**	–
– Loans to Dongtong *(note (iii))*	**–**	(60,123)
	(6,372)	(60,123)
Trade and other receivables – current portion	**282,133**	173,320

* The English translation of the entity name is for reference only. Its official name is in Chinese.

As at 31 December 2016 and 2015, no trade and bills receivable were pledged for the borrowings. All non-current receivables are due within five years from the end of the reporting date.

24. Trade and other receivables *(Continued)*

(i) Trade and bills receivables

Credit terms given to its customers in cement segment and sewage and sludge treatment segment generally range from 30 to 90 days (2015: 30 to 90 days). For major customers, depending on their business relationships with the Group and their creditworthiness, the Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB50 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days.

Ageing analysis of trade and bills receivables (net of impairment losses) by invoice date is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 90 days	**76,394**	53,253
From 91 days to 180 days	**17,726**	32,636
From 181 days to 1 year	**34,196**	21,462
From 1 year to 2 years	**20,052**	13,694
Over 2 years	**5,610**	1,902
	153,978	122,947

As at 31 December 2016, trade receivables of RMB2,218,000 (2015: RMB1,366,000) had been impaired. The amount of the provision for individuals impaired trade receivables was RMB852,000 (2015: RMB690,000). The individually impaired receivables mainly related to certain customers, which are in unexpectedly difficult economic situations.

24. Trade and other receivables *(Continued)*

(i) Trade and bills receivables *(Continued)*

Ageing analysis of the Group's trade and bills receivables that were past due but not impaired is as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired *(note (a))*	**112,215**	62,691
1 to 90 days past due *(note (b))*	**21,060**	23,198
91 to 180 days past due *(note (b))*	**7,972**	21,462
181 to 1 year past due *(note (b))*	**7,121**	13,694
More than 1 year past due *(note (b))*	**5,610**	1,902
	153,978	122,947

Notes:

(a) The balances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(b) These are past due but not impaired and related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Except for the trade receivables amounting to approximately RMB1,456,000 as at 31 December 2016 (2015: RMB4,359,000) that are indemnified by the former owners of the Biofit Group for any loss due to non-settlement, the Group does not hold any collateral or other credit enhancements over these balances.

24. Trade and other receivables *(Continued)*

(ii) Amount due from grantor for contract work

The Group recognised a financial asset – amount due from grantor for contract work in respect of a BOT arrangement with a private sector entity (the "Grantor"). Under the BOT arrangement, the Group carries out construction work of the sewage treatment plant for the Grantor and receives in return a right to operate such plant for a period of eight years (the "Operation Period") and is entitled to a guaranteed minimum sewage treatment service income over the Operation Period. The plant will be transferred to the Grantor at nil consideration at the end of the Operation Period.

Amounts due from grantor for contract work represents revenue from construction service under the BOT arrangement to the extent that the Group has an unconditional right to receive cash, and bear interest at effective interest rate of 6% per annum. The amount is not yet due for payment and will be settled by revenue to be generated during the Operation period of the BOT arrangement.

(iii) Loans to Dongtong

On 22 December 2014, in order to stabilise the annual return to the Group, after approval by the board of directors of Dongtong, the Group agreed to receive a fixed annual payment for the period from 23 December 2014 up to 31 December 2017 under the guarantees of two other shareholders of Dongtong. The fixed annual income (which is interest income at a fixed rate of 10.68% (2015: 10.68%) per annum) is receivable on 31 December each year and the loan principal of RMB60,000,000 is to be repaid on 31 December 2017. In return, the Group agreed to terminate all its shareholder's rights associated to the investments and the assigned director from the Group to the board of Dongtong has resigned from the directorship. Loans due from Dongtong amounting to RMB66,400,000 are thus initially recognised at fair value and subsequently carried at amortised cost using effective interest method.

24. Trade and other receivables *(Continued)*

(iii) Loans to Dongtong (Continued)

As at 31 December 2016, interest receivable from Dongtong of approximately RMB6,458,000 (2015: RMB152,000) was past due over 1 year. The interest receivable was fully settled in March 2017.

(iv) Movements of the provision for impairment of trade and other receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
Trade receivables:		
Beginning of year	**1,366**	676
Provision for the year	**852**	690
End of year	**2,218**	1,366

	2016	2015
	RMB'000	*RMB'000*
Other receivables:		
Beginning of year	**–**	–
Provision for the year	**558**	–
End of year	**558**	–

The origination and release of provision for impairment of trade receivables and other receivables has been included in administrative expenses in the consolidated statement of comprehensive income. Amounts charged to the impairment account are generally written off, when there is no expectation of recovering additional cash. The Group recognised impairment loss on individual assessment in accordance with the accounting policy stated in note 4 (i)(ii).

25. Amounts due from customers for other construction work

	2016	2015
	RMB'000	*RMB'000*
Contracts in progress at the end of year:		
Contract cost incurred	**48,896**	30,610
Recognised profits less recognised losses	**17,497**	309
	66,393	30,919
Progress billings	**(33,859)**	(14,782)
	32,534	16,137
Represented by:		
Due from customers included in current assets	**32,534**	16,137

26. Short-term bank deposits

The balances as at 31 December 2016 and 2015 are all short-term bank deposits with original maturities exceeding three months. These deposits are all denominated in RMB, with an interest rate of 1.65% (2015: 1.98%) per annum.

27. Cash and cash equivalents

RMB12,546,000 of the Group's cash and cash equivalents was denominated in RMB as at 31 December 2016 (2015: RMB42,212,000). RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC Government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

28. Trade and other payables

	2016 RMB'000	2015 RMB'000
Trade payables	**44,795**	56,452
Advances from customers	**3,394**	1,047
Salary payables	**1,955**	1,569
VAT payables *(note (a))*	**3,257**	2,153
Other payables	**2,555**	3,630
Amount due to a director of subsidiary	–	5,658
	55,956	70,509

The credit period granted by the Group's principal suppliers in cement segment is ranged from 30 to 90 days (2015: 30 to 90 days), while those granted in the sewage and sludge treatment segment is ranged from 30 to 90 days (2015: 30 to 90 days).

Ageing analysis of trade payables by invoice date is as follows:

	2016 RMB'000	2015 RMB'000
Within 30 days	**24,158**	12,212
From 31 to 90 days	**10,975**	14,044
From 91 days to 180 days	**3,986**	9,881
From 181 days to 1 year	**1,375**	5,131
From 1 year to 2 year	**3,502**	14,325
Over 2 years	**799**	859
	44,795	56,452

Note:

(a) Domestic sales of self-manufactured products made by the PRC subsidiary are subject to VAT at 17% (2015: 17%). Input VAT on purchases of raw materials, fuel, utilities, other production materials and certain purchased equipment can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

29. Borrowings

The balances at 31 December 2016 and 2015 are all bank borrowings repayable within one year. Interest is charged on the outstanding balances of these borrowings at rates ranged between 5.66% and 6.00% (2015: 5.58% to 6.53%) per annum. As at 31 December 2016, bank borrowings of approximately RMB4,000,000 (2015: RMB5,000,000) was secured by personal guarantees from the Company's director, Mr. Ling Chao and his close family member.

30. Deferred tax liabilities

Movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets	**Provisions**	**Tax loss**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	169	–	169
Credited to profit or loss	159	2,753	2,912
At 31 December 2015	328	2,753	3,081
Credited/(charged) to profit or loss	220	(1,505)	(1,285)
At 31 December 2016	548	1,248	1,796

Deferred tax liabilities	**Withholding tax for attributable profit relating to equity holders**	**Revaluation of intangible assets**	**Assets in relation to BOT arrangement**	**Total**
	(Note (a))			
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	7,303	–	–	7,303
Acquisition through business combination *(Note 34)*	–	2,438	–	2,438
Credited to profit or loss	(1,183)	(392)	–	(1,575)
At 31 December 2015	6,120	2,046	–	8,166
Disposal through disposal of a subsidiary *(Note 35)*	–	(21)	–	(21)
Charged/(credited) to profit or loss	406	(529)	288	165
At 31 December 2016	6,526	1,496	288	8,310

30. Deferred tax liabilities *(Continued)*

(a) Pursuant to the PRC Corporate Income Tax Law, effective from 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% upon the PRC tax bureau's approval at the time of dividend claim. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in the PRC in respect of their earnings generated from 1 January 2008.

(b) Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets in respect of losses amounting to RMB4,499,000 (2015: RMB2,361,000).

For the purpose of presentation in consolidated statement of financial position, deferred tax assets and liabilities have been offset.

	2016	2015
	RMB'000	*RMB'000*
Deferred tax liabilities, net	**6,514**	5,085

Movements in deferred tax liabilities are as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**5,085**	7,134
Acquired through business combination *(Note 34)*	**–**	2,438
Disposal of a subsidiary	**(21)**	–
Charged/(credit) to profit or loss *(Note 15)*	**1,450**	(4,487)
At 31 December	**6,514**	5,085

31. Share capital

	Number of ordinary shares	Nominal value of ordinary shares HK$'000	Equivalent nominal value of ordinary shares RMB'000
Authorised:			
Ordinary shares of HK$0.01 each as at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	10,000,000,000	100,000	81,520
Issued:			
Ordinary shares of HK$0.01 each as at 1 January 2015	512,000,000	5,120	4,174
Placing of shares *(note)*	40,000,000	400	316
As at 31 December 2015, 1 January 2016 and 31 December 2016	552,000,000	5,520	4,490

Note:

On 23 January 2015, the Company entered into the placing agreement with the placing agent pursuant to which the placing agent has agreed to place, to not less than six placees who are independent third parties to subscribe of up to 40,000,000 new shares at a price of HK$1.30 per placing share. The placing was completed on 13 February 2015 and the independent third parties did not become substantial shareholders of the Company after the completion of placing. Total proceeds of the placing share issued were HK$52,000,000 (equivalent to approximately RMB40,622,000), of which HK$400,000 (equivalent to approximately RMB316,000) and HK$51,600,000 (equivalent to approximately RMB40,306,000 (note 32) were credited to share capital and share premium respectively.

32. Other reserves

The Group	Share premium RMB'000	Statutory reserve *(Note (a))* RMB'000	Merger reserve *(Note (b))* RMB'000	Total RMB'000
At 1 January 2015	67,784	22,457	192,011	282,252
Issue of shares	40,306	–	–	40,306
At 31 December 2015	108,090	22,457	192,011	322,558
Appropriation to statutory reserves	–	451	–	451
At 31 December 2016	108,090	22,908	192,011	323,009

32. Other reserves *(Continued)*

The Company	Share premium	Capital reserve	Total
		(Note (c))	
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2015	67,784	207,930	275,714
Issue of shares	40,306	–	40,306
At 31 December 2015, 1 January 2016, and 31 December 2016	108,090	207,930	316,020

(a) *Statutory reserve*

The Company's subsidiaries in the PRC are required to appropriate 10% of their profit after income tax calculated in accordance with the PRC accounting standards to the statutory reserve until the balance reaches 50% of its registered capital, where further transfers will be at their directors' discretion. The statutory reserve can be used to offset prior years' losses, if any and may be converted into paid-in capital of the PRC subsidiaries in proportion to their existing shareholding after approval from the appropriate authorities, provided that the remaining balance of the statutory reserve after such issue is no less than 25% of paid-in capital for the PRC subsidiaries. For the year ended 31 December 2016, except one of the Company's subsidiaries in the PRC has appropriated RMB451,000 (2015: Nil), others have reported loss and no appropriation to the statutory reserve (2015: Nil).

(b) *Merger reserve*

The Company was incorporated on 29 November 2011 and the Group's reorganisation was completed prior to 31 December 2011. This reserve as at 31 December 2015 primarily represented the aggregate amount of share capital of the companies now comprising the Group, after elimination of investments in subsidiaries.

(c) *Capital reserve*

In 2011, Dongwu HK acquired the entire equity interest in Dongwu Cement from Far East International Investment Company Limited ("Far East International", a limited liability company incorporated on 29 September 2003 in Samoa, wholly-owned by the same ultimate shareholder), at a consideration of US$33,000,000 (equivalent to RMB207,930,000). The consideration payable to Far East International was regarded as a deemed distribution to equity holders of the Company. The consideration payable was novated to Goldview Development Limited ("Goldview", a limited liability company incorporated in the British Virgin Islands ("BVI") on 16 March 2004, wholly-owned by the same ultimate shareholder) and Concord Ocean Limited ("Concord", a limited liability company incorporated in the BVI on 25 October 2000, wholly-owned by the controlling shareholder) in proportion to their then respective shareholdings in the Company and subsequently Goldview and Concord gave written confirmations in relation to their unconditional and irrevocable waiver as to the Company's repayment obligation of US$33,000,000 (equivalent to RMB207,930,000). As such, the waived payable was regarded as deemed contribution from shareholders.

33. Statement of financial position of the Company

	Note	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Investment in a subsidiary		**208,246**	208,245
Current assets			
Amount due from subsidiaries		**94,368**	90,026
Other receivables		**–**	162
Prepayment		**170**	–
Cash and cash equivalents		**5,856**	8,924
Total current assets		**100,394**	99,112
LIABILITIES			
Current liabilities			
Amount due to a subsidiary		**315**	1,665
Other payables		**107**	–
Total current liabilities		**422**	1,665
Net current assets		**99,972**	97,447
Total assets less current liabilities		**308,218**	305,692
EQUITY			
Share capital	*31*	**4,490**	4,490
Other reserves	*32*	**316,020**	316,020
Accumulated losses		**(12,292)**	(14,818)
Total equity		**308,218**	305,692

On behalf of the Board

Xie Yingxia
Director

Ling Chao
Director

34. Business combination in 2015

On 30 April 2015, the Group acquired entire equity interest in Shanghai Biofit Environmental Technology Co. Ltd and its subsidiaries (together the "Biofit Group") at a consideration of approximately RMB30,254,000. One of the vendors is a company controlled by Mr. Ling Chao, who has been appointed as the Company's executive director after the acquisition. The Biofit Group is principally engaged in business of organic wastewater treatment, sludge treatment and disposal, comprehensive treatment of urban organic waste and other integrated environment services.

Pursuant to the sales and purchases agreement, the vendors undertake that the profit after tax of the Biofit Group as shown in its audited financial statements for the period from the cut-off date in 2014 as defined in the agreement (the" Cut-off Date") to 31 December 2014 and each of the financial years ending 31 December 2015, 2016 and 2017 shall not be less than RMB2,000,000, RMB10,000,000, RMB10,000,000, RMB10,000,000, respectively (each of which referred to as the" Guaranteed Profit"). If there is any shortfall on the Guaranteed Profit in each of the above periods, cash compensation of the shortfall has to be paid by the vendors to the Group within 30 days from the respective dates of the audited financial statements.

On the other hand, pursuant to the sale and purchase agreement, in consideration of the above profit guarantee given by the vendors, the Group agreed to issue share options in respect of a total of 12,800,000 of the Company's shares at an exercise price of HK$1.3 to the vendors, detailed terms of which have to be further agreed between the Group and the vendors. Up to the date of approval of these financial statements, no share option has been issued by the Company to the vendors.

Based on its audited financial statements, the Guaranteed Profits for the years ended 31 December 2015 and 2016 could not be met by the Biofit Group. However, up to the date of approval of these financial statements, the Group has not yet received any shortfalls in Guaranteed Profits from the vendors. Based on a legal opinion given by a PRC lawyer, the Company's directors are of the opinion that, taking into consideration the fact that no share option has been issued by the Company to the vendors since the completion of acquisition of the Biofit Group, it was uncertain whether the Group could enforce its right to recover from the vendors the shortfalls in Guaranteed Profits. Accordingly, the directors considered that the fair value, if any, of the profit guarantee as described above, was not material, and accordingly it has not been recognised in these consolidated financial statements since the completion of acquisition of the Biofit Group.

34. Business combination in 2015 *(Continued)*

Goodwill of approximately RMB9,396,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of acquired business with the existing operations of the Group.

The fair value of identifiable assets and liabilities of the Biofit Group as at the date of acquisition were:

	RMB'000
Property, plant and equipment	1,141
Intangible assets	9,187
Trade receivables	6,685
Amounts due from customers for contract work	16,896
Prepayments, deposits and other receivables	27,557
Bank and cash balances	9,382
Trade payables	(35,096)
Accruals and other payables	(2,556)
Borrowings	(9,900)
Deferred tax liabilities recognised upon fair value adjustments *(Note 30)*	(2,438)
Net assets attributed to the Group acquired	20,858
Bank and cash balances acquired	9,382
Cash consideration paid	(30,254)
Net cash outflow	(20,872)

Since the acquisition up to 31 December 2015, the Biofit Group has contributed RMB15,102,000 and RMB1,536,000 to Group's revenue and loss respectively. If the acquisition had occurred on 1 January 2015, the Group's revenue and loss would have been increased to RMB18,557,000 and RMB3,356,000 respectively. This pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor was it intended to be a projection of future performance.

The acquisition-related costs of RMB190,000 had been expensed and were included in administrative expenses.

35. Disposal of subsidiary

On 20 July 2016, the Group disposed of its wholly-owned subsidiary, 上海富誠環保科技有限公司 (Shanghai Fu Cheng Environmental Technology Co., Ltd. "Shanghai Fu Cheng"), which is engaged in the provision of sewage treatment operation and construction services in PRC. Net assets of Shanghai Fu Cheng at the date of disposal were as follows:

	RMB'000
Intangible assets	234
Trade receivables	3,076
Prepayments, deposits, and other receivables	5,605
Amount due from customers for other contract work	4,493
Cash and bank balances	18
Trade payables	(2,595)
Accruals and other payables	(6,315)
Deferred tax liabilities recognised upon fair value adjustments	(21)
Other tax payable	(6)
	4,489
Gain on disposal of subsidiary included in profit or loss in the consolidated statement of comprehensive income	511
Total consideration	5,000
Net cash inflow arising on disposal:	
Cash consideration	5,000
Cash and bank balances disposed of	(18)
Net cash inflow	4,982

36. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting periods are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Financial assets:		
Available-for-sale financial asset	**2,898**	2,898
Loan and receivables		
– Trade and other receivables excluding prepayments	**277,901**	219,771
– Cash and cash equivalents	**18,949**	52,099
– Short-term bank deposits	**31,000**	30,000
Total	**330,748**	304,768
Financial liabilities:		
Financial liabilities at amortised cost		
Borrowings	**54,000**	60,000
Trade and other payables excluding non-financial liabilities	**49,305**	60,082
Total	**103,305**	120,082

37. Financial risk management and fair value

The Group has various financial assets and liabilities such as cash and cash equivalents, trade and other receivables, trade and other payables and balances with related companies and directors.

The main risks arising from the Group's financial instruments are foreign currency risk, cash flow interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to currency risk is limited to its bank balances denominated in Hong Kong Dollars ("HKD") as majority of the Group's transactions, monetary assets and liabilities are denominated in RMB.

37. Financial risk management and fair value *(Continued)*

(a) *Foreign currency risk* *(Continued)*

The carrying amounts of the Group's material monetary assets that are not denominated in RMB at the end of reporting periods are as follows:

	Assets	
	2016	2015
	RMB'000	*RMB'000*
HKD	**6,039**	9,881
USD	**364**	6
	6,403	9,887

Sensitivity analysis

The following table indicates the approximate change in the Group's profit before income tax expense for the year in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. A positive number below indicates an increase in profit or decrease in loss.

	Effect on profit for the year	
	2016	2015
	RMB'000	*RMB'000*
HKD to RMB		
Appreciated by 3%	**181**	296
Depreciated by 3%	**(181)**	(296)
USD to RMB		
Appreciated by 3%	**11**	–
Depreciated by 3%	**(11)**	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rate had occurred at the end of reporting period and that all other variables, in particular interest rates, remain constant. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date.

37. Financial risk management and fair value *(Continued)*

(b) *Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group have significant interest-bearing assets. Fluctuation of deposit interest rates to financial assets does not have a significant impact to the Group's performance.

The Group's fair value interest rate risk arises primarily from short-term borrowings as disclosed in note 29. Borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

	2016		2015	
	Effective interest rate	**Amount**	Effective interest rate	Amount
	(% per annum)	***RMB'000***	*(% per annum)*	*RMB'000*
Financial assets				
Fixed rate receivables				
– Short-term bank deposits	**1.65%**	**31,000**	1.98%	30,000
– Loan receivables	**10.45%**	**66,400**	10.45%	66,400
Financial liabilities				
Fixed rate borrowing				
– Bank borrowings	**5.68%**	**54,000**	6.13%	60,000

(c) *Credit risk*

The carrying amounts of the bank deposits and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2016, the Group's bank deposits were placed in the commercial banks with high credit ratings.

37. Financial risk management and fair value *(Continued)*

(c) Credit risk *(Continued)*

The Group has adopted a policy of only dealing with creditworthy counterparties. The credit risk on trade receivable is low. Based on past experience, the customer payment default rate is low. The Group has a significant concentration of credit risk in trade and bills receivables, which is accounted for by amounts due from the Group's top five customers as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Balance of trade and bills receivables from top five customers	**79,970**	52,316
Balance of trade and bills receivables *(Note 24)*	**153,978**	122,947
Percentage	**51.94%**	42.55%

It is the Group's policy to receive settlement from customers in the form of cash, cheques or endorsed bank accepted bills. Credit sales are made only to selected customers with long-term business trading history. The issuing banks of these bank acceptance bills are either state-owned banks with investment grade ratings or local banks with good reputation. The Group considered the default risk from these bank acceptance bills is low. Therefore, the directors consider the Group's bank acceptance bills and trade receivables have no significant exposure to credit risk.

Management reviews the recoverability of loans to Dongtong at end of reporting period. The management is of the opinion that there is no significant risk on such balance as the principal amount of the loans receivable was not yet due and accrued interest receivables were subsequently settled.

As at 31 December 2016 and 2015, there was no financial guarantee provided by the Group.

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash flows from operations. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was less than one year.

(e) Fair value

The carrying amounts of the financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their fair values due to the relative short term maturity of these financial instruments.

38. Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes for managing capital during the year.

Management regards total equity attributable to owners of the Company as capital. The amount of capital as at 31 December 2016 amounted to approximately RMB372,903,000 (2015: RMB363,817,000) which management considers as optimal having considered the projected capital expenditures and the strategic opportunities.

39. Lease commitments

At the end of the reporting periods, the Group had commitments for future minimum lease payments under operating leases which fall due as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Within one year	**1,720**	953
In the second to fifth year, inclusive	**868**	852
	2,588	1,805

Operating lease payment represented rental payable by the Group for certain of its offices. Leases are negotiated for lease terms of one to three years.

40. Related party transactions

Key management compensation

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employees service is shown below:

	2016	2015
	RMB'000	*RMB'000*
Basic salaries and benefits in kind	**1,863**	1,207

The remuneration of the Group's key management personnel fell within the band of nil to HK$1,000,000 for the years ended 31 December 2016 and 2015.

Other than the above disclosed, there are no transactions among the Group and its related parties for the year ended 31 December 2016 (2015: Nil).

41. Events after the reporting date

On 26 January 2017, the Group fully disposed its available-for-sale financial assets for a cash consideration of RMB8,000,000, giving rise to a gain before tax recognised in profit or loss of approximately RMB5,102,000.

On 1 March 2017, the Group entered into a joint venture agreement (the "Joint Venture Agreement") with Suzhou Dongfang Jiujiu Industry Co., Ltd. ("Dongfang Jiujiu"), a company wholly owned by Mr. Tseung, the non-executive director and controlling shareholder of the Company, to establish a limited liability company in the PRC (the "JV Company") to utilise the Group's cement kiln to co-process solid waste. The registered capital of the JV Company amounted to RMB50,000,000, of which the Group agreed to pay RMB24,000,000 on or before 31 December 2018. Upon the completion of the Joint Venture Agreement, the JV Company will be owned as to 48% and 52% by the Group and Dongfang Jiujiu, respectively. The establishment of the JV Company constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules.

42. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2017.