**CHINA TIANRUI GROUP CEMENT COMPANY LIMITED**

**中國天瑞集團水泥有限公司**

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

**Stock Code: 1252**

# ANNUAL REPORT 2016

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# Corporate Information

## REGISTERED NAME OF THE COMPANY

China Tianrui Group Cement Company Limited

## PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

## STOCK CODE

01252

## CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Li Liufa

## EXECUTIVE DIRECTORS

Mr. Xu Wuxue
Mr. Li Jiangming

## NON-EXECUTIVE DIRECTORS

Mr. Li Heping
Mr. Yang Yongzheng

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kong Xiangzhong
Mr. Wang Ping
Mr. Du Xiaotang

## AUDIT COMMITTEE

Mr. Wang Ping (Chairman)
Mr. Kong Xiangzhong
Mr. Du Xiaotang

## NOMINATION COMMITTEE

Mr. Kong Xiangzhong (Chairman)
Mr. Yang Yongzheng
Mr. Wang Ping

## REMUNERATION COMMITTEE

Mr. Du Xiaotang (Chairman)
Mr. Xu Wuxue
Mr. Kong Xiangzhong

## PRINCIPAL BANKERS

Bank of China, Henan Branch
Industrial and Commercial Bank of China, Henan Branch
China Construction Bank, Henan Branch
Everbright Bank, Zhengzhou Branch
Huaxia Bank, Zhengzhou Branch
Bohai Bank

## REGISTERED OFFICE

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KY1-1111
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRC

## PLACE OF BUSINESS IN HONG KONG

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89 Queensway
Admiralty, Hong Kong

# Corporate Information

## COMPANY WEBSITE

http://www.trcement.com

## JOINT COMPANY SECRETARIES

Mr. Yu Chunliang
Ms. Kwong Yin Ping Yvonne
Mr. Li Jiangming

## AUTHORIZED REPRESENTATIVES

Mr. Li Jiangming
Ms. Kwong Yin Ping Yvonne

## CAYMAN ISLANDS SHARE REGISTRAR AND SHARE TRANSFER AGENT

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Beijing 100022
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## HONG KONG SHARE REGISTRAR

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## INVESTORS AND MEDIA RELATIONS ADVISOR

PRChina Limited
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Hong Kong

# Company Profile

China Tianrui Group Cement Company Limited is one of the top national cement producers, and is also the only non-state-owned enterprise designated by the Ministry of Industry and Information Technology of the PRC as one of the five leading cement companies that have received support from the PRC government for undertaking cement industry-specific mergers and acquisitions in the central China region. When undertaking cement industry-specific mergers and acquisitions and seeking project investments, our Group receives government support in the form of priority and preferential policies with respect to project approvals, grants of land use right and credit approvals. The Group has actively adapted to the changes to the policies of the state and the industry, and strives to achieve environmental protection and sustainable development through advanced technological equipment, reasonable regional layout, sufficient reserve of resources, standardized management and brand advantages. The Group can achieve rapid development and maintain and strengthen its leading market position in Henan and Liaoning provinces through active organic growth and acquisition activities.

- **Advanced technological equipment.** As of 31 December 2016, all of our clinker production lines are New Dry Process clinker production lines (NSP technology) equipped with residual heat power generation equipment, which can effectively reduce electricity cost and pollution, including a clinker production line of daily production of 12,000 tonnes established in 2009, which represented the world's largest clinker production line using the most advanced technology at the time, and operated smoothly with remarkable benefits since its commencement of production.

- **Reasonable regional layout.** The Group mainly maintains its layout in Henan and Liaoning, as well as the involvement in Tianjin and Anhui. In Henan Province, the Group develops its layout along "Two Vertical and Three Horizontal" expressways and the metropolitan life circle around Zhengzhou. In Liaoning, the Group develops its layout along "Harbin-Daqing Expressway" and Bohai Bay Rim Economic Belt. This makes the major production facilities of the Group to be located by limestone resources and terminal market, as well as the convergence point of major traffic routes, which can be benefitted in the long run.

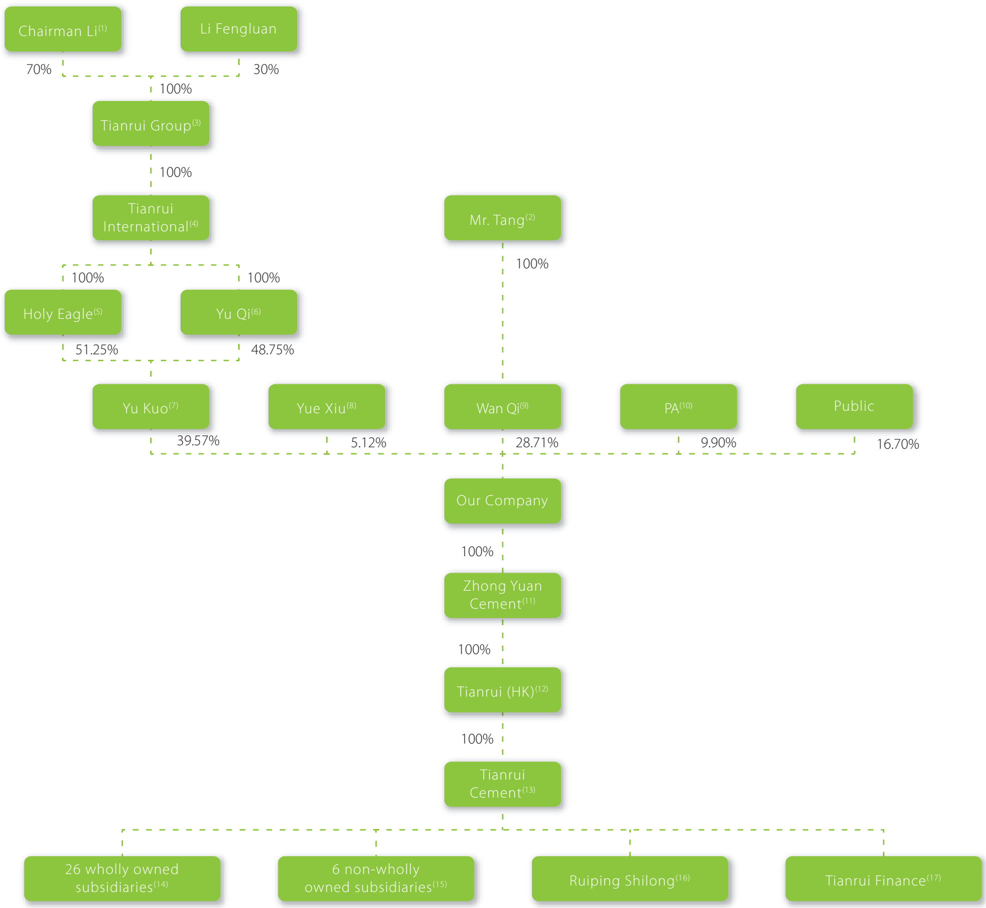
- **Sufficient reserve of resources.** We have sufficient limestone reserves and composite materials in Henan and Liaoning provinces. All of our clinker production facilities are located near our limestone quarries with sufficient resources to support our operations for at least 30 years.

- **Standardized management and brand advantage.** The Group has adopted a management model in line with international standards. The timely technical support provided by our professional technology team to our management team has laid down the foundation of our product quality and operation safety. Our Group is one of the few cement producers in China which have obtained the International Organization for Standardization (ISO) certifications for three management systems of quality control, environmental management and occupational health and safety and for product quality, at both the parent and operating subsidiary levels. Leveraging our management and high-quality products, we have successfully won tenders and become a qualified primary cement provider for a number of high-profile, large-scale infrastructure projects in China, including, among other things, the South-North Water Transfer (南水北調), Harbin-Dalian Express Railway (哈大高鐵), Shijiazhuang-Wuhan Express Railway (石武高鐵), Zhengzhou-Xuzhou Express Railway (鄭徐高鐵) and Beijing-Shenyang Passenger Dedicated Line (京瀋客專).

- **Committed to environment protection and sustainable development.** The Group is committed to the research and development of advanced and environmentally-friendly technologies and recycling of waste materials. We have invested to construct residual heat recovery power generation equipment, to improve dust recovery equipment, and to construct mullock recycle system and waste materials recycle system. We are also one of the three Chinese cement companies that have been accepted by World Business Council for Sustainable Development as a member of the Cement Sustainability Initiative (CSI). The Group will as always improve its competitiveness and sustainability, and believes that it will achieve better results in future.

## I. CORPORATE STRUCTURE

As of 31 December 2016, the corporate structure of our Group was as follows:




Notes:

(1) "Chairman Li" refers to Mr. Li Liufa (李留法), the founder, chairman and controlling shareholder of our Group. Ms. Li Fengluan is the spouse of Chairman Li.

(2) "Mr. Tang" refers to Mr. Tang Ming Chien (唐明千), a Canadian citizen and the sole shareholder of Wan Qi Company Limited.

(3) "Tianrui Group" refers to Tianrui Group Company Limited (天瑞集團股份有限公司), a company incorporated in the PRC with limited liability, which is 70% owned by Chairman Li and 30% owned by Li Fengluan, the spouse of Chairman Li.

(4) "Tianrui International" refers to Tianrui (International) Holding Company Limited (天瑞（國際）控股有限公司), a company incorporated in the BVI with limited liability, which is wholly owned by Tianrui Group.

(5) "Holy Eagle" refers to Holy Eagle Company Limited (神鷹有限公司), a company incorporated in the BVI with limited liability, which is wholly owned by Tianrui International.

(6) "Yu Qi" refers to Yu Qi Company Limited (煜祺有限公司), a company incorporated in the BVI with limited liability, which is wholly owned by Tianrui International.

(7) "Yu Kuo" refers to Yu Kuo Company Limited (煜闊有限公司), a company incorporated in the BVI with limited liability, which is 51.25% owned by Holy Eagle and 48.75% owned by Yu Qi.

(8) "Yue Xiu" refers to Yue Xiu Investment Fund Series Segregated Portfolio Company (越秀基金獨立投資組合公司), a company incorporated in Cayman Islands with limited liability.

(9) "Wan Qi" refers to Wan Qi Company Limited, a company established in the BVI with limited liability and wholly owned by Mr. Tang.

(10) "PA" refers to PA Investments Funds SPC-PH Greater China Industrial Opportunities Fund Segregated Portfolio.

(11) "Zhong Yuan Cement" refers to Zhong Yuan Cement Company Limited (中原水泥有限公司), a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of our Company.

(12) "Tianrui (HK)" refers to China Tianrui (Hong Kong) Company Limited (中國天瑞（香港）有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of our Company.

(13) "Tianrui Cement" refers to Tianrui Group Cement Company Limited (天瑞集團水泥有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of our Company.

(14) The 26 wholly-owned PRC subsidiaries of our Group are Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州水泥有限公司, "Ruzhou Cement"), Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司, "Zhoukou Cement"), Weihui Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司, "Weihui Cement"), Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司, "Shangqiu Cement"), Tianrui Group Zhengzhou Cement Company Limited (天瑞集團鄭州水泥有限公司, "Zhengzhou Cement (Xingyang)"), Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司, "Dalian Cement"), Yingkou Tianrui Cement Company Limited (營口天瑞水泥有限公司, "Yingkou Cement"), Tianrui Group Nanzhao Cement Company Limited (天瑞集團南召水泥有限公司), Liaoyang Tianrui Cement Company Limited (遼陽天瑞水泥有限公司, "Liaoyang Cement"), Tianrui Group Yuzhou Cement Company (天瑞集團禹州水泥有限公司, "Yuzhou Cement")), Tianrui Group Xuchang Cement Company Limited (天瑞集團許昌水泥有限公司), Tianrui Group Guangshan Cement Company Limited (天瑞集團光山水泥有限公司 "Guangshan Cement"), Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司, "Zhengzhou Tianrui"), Tianrui Group Xiaoxian Cement Company Limited (天瑞集團蕭縣水泥有限公司), Tianrui Group Ningling Cement Company Limited (天瑞集團寧陵水泥有限公司), Lushan Antai Cement Company Limited (魯山安泰水泥有限公司, "Antai Cement"), Yuzhou Zhongjin Mining Company Limited (禹州中錦礦業有限公司), Liaoyang Tianrui Liaota Cement Company Limited (遼陽天瑞遼塔水泥有限公司, "Liaota"), Liaoyang Tianrui Dengta Mining Company Limited (遼陽天瑞燈塔礦業有限公司, "Dengta Mining"), Liaoyang Tianrui Liaodong Cement Company Limited (遼陽天瑞遼東水泥集團有限公司, "Liaodong Cement"), Liaoyang Tianrui Weiqi Cement Company Limited (遼陽天瑞威企水泥有限公司, "Weiqi Cement"), Dalian Tianrui Jinhaian Cement Company Limited (大連天瑞金海岸水泥有限公司, "Dalian Jinhaian"), Haicheng the First Cement Company Limited (海城市第一水泥有限公司, "Haicheng Cement"), Haicheng Tianying Construction Stone Mining Company Limited (海城市天鷹建築石材採掘有限公司, "Tianying Mining"), Zhuanghe Tianrui Cement Company Limited (莊河天瑞水泥有限公司, "Zhuanghe Cement") and Panjin Jinrun Cement Company Limited (盤錦金潤水泥有限公司) ("Panjin Cement").

(15) The 6 non-wholly owned PRC subsidiaries of our Group are Tianjin Tianrui Cement Company Limited (天津天瑞水泥有限公司, "Tianjin Cement"), the other two shareholders are Wang Aimin (汪愛敏) and Li Ji'ang (李激昂) while each of them holds 20% of the equity interest in Tianjin Cement; Pingdingshan Tianrui Yaodian Cement Company Limited (平頂山天瑞姚電水泥有限公司, "Yaodian Cement"), the other shareholder is Pingdingshan Yaomeng Power Group Company Limited (平頂山姚孟電力集團有限公司) which holds 9% equity interest in Yaodian Cement; Xinyang Tianrui Cement Company Limited (信陽天瑞水泥有限公司, "Xinyang Cement"), the other two shareholders are Zhang Xiaogen (張小根) and Zhang Qingrong (張清榮) in the relationship between husband and wife, who hold 20% and 10% equity interest, respectively; Liaoyang Tianrui Chengxing Cement Company Limited (遼陽天瑞誠興水泥有限公司, "Chengxing Cement"), the other shareholder of Chengxing Cement is Yang, Qinggeng (楊慶庚), who holds 30% equity interest; Shenyang Tiger Cement Company Limited (瀋陽老虎水泥有限公司, "Tiger Cement"), the other shareholder is Shenyang Taifeng Special Concrete Company Limited (瀋陽泰豐特種混凝土有限公司) which holds its 40% equity interest; China Tianrui Information Technology Limited (天瑞集團信息科技有限公司), the other shareholder is Li Jia (李佳) who holds its 10% equity interest.

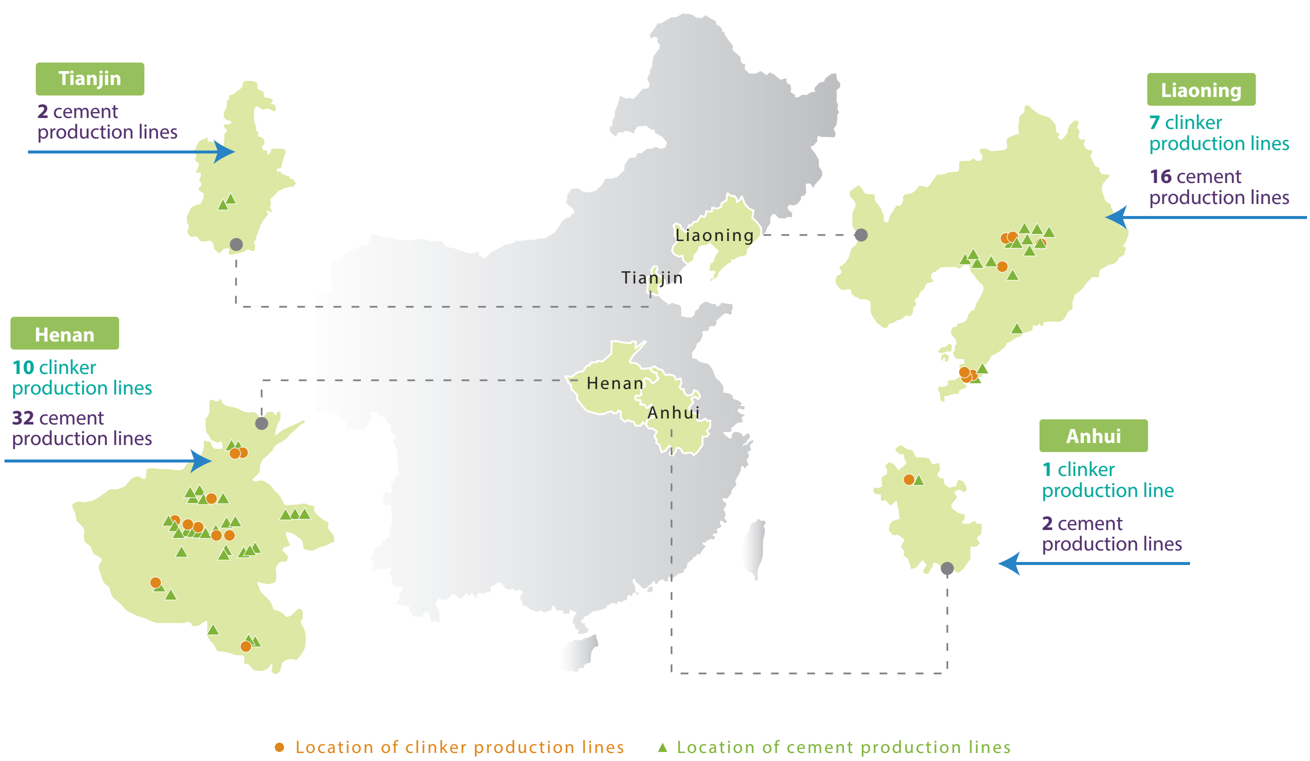
(16) "Ruiping Shilong" refers to Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司), a company established in the PRC with limited liability, its 40% equity interest is held by the Company and the other shareholder, Pingdingshan Ruiping Coal & Electricity Company Limited (平頂山市瑞平煤電有限公司), is holding its 60% equity interest.

(17) "Tianrui Finance" refers to Tianrui Group Finance Company Limited (天瑞集團財務有限公司), a company established in the PRC with limited liability, its 35% equity interest is held by the Company and 65% equity interest is held by the other shareholders, being Tianrui Group and its subsidiaries.

## II. DISTRIBUTION AND PRODUCTION CAPACITY OF PRODUCTION FACILITIES

The Group's operating production facilities are mainly located in Henan province, Liaoning province, Tianjin city and certain parts of Anhui province. Our production facilities in Henan province are strategically located along the "Two Vertical and Three Horizontal" expressways and the "Two Vertical and Two Horizontal" railways, and our production facilities in Liaoning province and Tianjin city are strategically located along the Harbin-Dalian Express Railway and the Bohai Economic Rim. Our production facilities are strategically located at the intersection area of limestone resources, end market and the junctions of transportation lines, providing us with unique long-term strategic advantages.

As of 31 December 2016, the Group had 18 clinker production lines and 52 cement grinder production lines with a total annual production capacity of about 28.1 million tonnes of clinker and 50.8 million tonnes of cement, respectively. Compared to those as of 31 December 2015, no increase was recorded for the clinker production capacity at the moment, while the cement production capacity recorded an increase of 0.5 million tonne. Of such total annual production capacity, Henan region (including Anhui) had a cement production capacity of 32.4 million tonnes and a clinker production capacity of 18.1 million tonnes, and Liaoning region (including Tianjin) had a cement production capacity of 18.4 million tonnes and a clinker production capacity of 10.0 million tonnes. In addition, we directly own 40% equity interest in an associated company which operates two New Dry Process clinker production lines with an annual production capacity of 3.1 million tonnes in Pingdingshan. Based on our attributable interest in such associated companies, the Group has a total of attributable production capacity of about 29.3 million tonnes of clinker and 50.8 million tonnes of cement as of 31 December 2016. The Group prepares internal reports mainly based on two broad geographical locations named Central China and Northeastern China. Central China includes Henan province and certain parts of Anhui province. Northeastern China includes Liaoning province and Tianjin City.



# Financial Highlights

| | For the year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Revenue | **6,008,605** | 6,195,093 |
| Gross profit | **1,516,804** | 1,247,154 |
| EBITDA | **2,131,909** | 2,130,805 |
| Profit | **249,570** | 283,505 |
| Of which: Profit attributable to owners of the Company | **295,812** | 313,079 |
| Basic earnings per share | **0.12** | 0.13 |
| Diluted earnings per share | **N/A** | N/A |
| Net cash generated from operating activities | **2,325,568** | 116,064 |
| Net cash used in investing activities | **1,756,401** | (1,960,040) |
| Net cash generated from financing activities | **(4,078,102)** | 1,592,985 |

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Total assets | **24,116,401** | 27,090,462 |
| Of which: Current assets | **7,650,108** | 9,921,998 |
| Total liabilities | **16,476,711** | 19,672,581 |
| Of which: Current liabilities | **12,109,593** | 13,784,777 |
| Total equity | **7,639,690** | 7,418,061 |
| Of which: Equity attributable to owners of the Company | **7,758,372** | 7,470,283 |

# Management Discussion and Analysis

## BUSINESS REVIEW

Despite the pressure of slow growth in 2016, the Chinese economy had succeeded in maintaining a stable and promising growth. Under the background of a disconcerting macroeconomy, the cement industry, as one of the industries with overcapacity, also suffered from great pressure. However, by courtesy of measures such as environmental conservation, reduction of overcapacity, alternative production arrangements, the cement industry had recovered from its trough and maintained a slow growth rate. These measures fundamentally altered the situation of decreasing profits or even huge losses. Facing the impacts of macroeconomic fluctuation and the multi aspect changes in respect of environmental conservation, investment and real estate in regional markets, the Group had, in response to national policies and the appeal of the industry's association, actively worked with other enterprises in the cement industry to implement alternative production arrangement plans during peak time and to reduce disorderly price competition. In 2016, a slight decline in cement sales was recorded in the main operation areas of the Group.

— According to the data of Digital Cement (數字水泥), in 2016, the cement production volume in the mid-southern region was 690 million tons, which increased by approximately 1.6% year-over-year. According to the data of National Bureau of Statistics (國家統計局), in 2016, the cement production volume in Henan was 156 million tons with approximately 5.8% decrease year-over-year. On the other hand, in 2016, the Group sold about 22.1 million tons of cement in Henan, representing a decrease of about 12.6% compared with 2015.

— According to the data of Digital Cement (數字水泥), in 2016, the cement production volume in the northeastern region was 106 million tons, which decreased by approximately 1.2% year-over-year. According to the data of National Bureau of Statistics (國家統計局), in 2016, the cement production volume in Liaoning was 39.3 million tons with approximately 13.5% decrease year-over-year. On the other hand, in 2016, the Group sold about 7.4 million tons of cement in Liaoning, representing an increase of 24.3% compared with 2015.

In 2016, the cement industry experienced a trend of recovery. As a result of the alternative production arrangements during peak time in the industry, and efforts in reducing disorderly price competition, the initially low cement prices increased drastically. The influence of sales decline was compensated by the rising prices in the second half of the year. Meanwhile, a number of measures had been taken to reduce costs and expenses in order to improve the enterprise's performance. We had adjusted the debt structure, strictly controlled the purchase of raw materials, implemented a lean management system, and strived to further reduce energy consumption in production. Consequently we were able to effectively improve gross profit margin and net profit margin and increase core business profits.

— In 2016, our gross profit margin was approximately 25.2%, with an increase of approximately 5.1 percentage points compared with 20.1% last year. At the same time, the average sales price jumped from approximately RMB187.2 per ton in 2015 to approximately RMB194.5 per ton in 2016, an increase of approximately 3.9%.

— In 2016, we sold approximately 1.7 million tons of clinker, a decrease of 600 thousand tons compared with 2.3 million tons in 2015. In the meantime, the clinker we produced was mainly used to meet the internal needs of cement production.

## BUSINESS ENVIRONMENT

In 2016, the Chinese government continued to deepen reform and innovation, strengthen macro adjustment, implement supply-side reform and carried out three strategies (namely "One Belt One Road" construction, coordination of the development of Beijing, Tianjin and Hebei, and the development of Yangtze River economic belt) to start a number of key projects. The "13th Five-Year" plan for the development of western regions had been prepared and a new series of strategies of North East Revitalization had been implemented. The rise of the central regions was promoted and the prior development of the eastern regions was supported, in order to accelerate a new urbanization process. According to the 2017 Government Work Report, China's GDP reached RMB74.4 trillion in 2016, representing an increase of 6.7%. Profits of industrial enterprises increased by 8.5% in contrast to a decline of 2.3% last year. Energy consumption per unit of GDP fell by 5%. The quality and efficiency of economic development had been significantly improved.

In 2016, changes of fixed assets investment impacted the cement industry significantly. According to the data of National Bureau of Statistics, investments in fixed assets in 2016 recorded RMB60.6 trillion, a year-on-year increase of 7.9%, reaching a record lowest growth rate for the past ten years. Infrastructure investments grew 17.4% to RMB11.9 trillion, the growth rate is almost same as last year. Investments in national real estate development reached RMB10.3 trillion, representing an increase of 6.9% compared to that of 2015, with an increase of 5.9 percentage points. At the end of the year, commercial housing areas for sale were 695.39 million square meters, 23.14 million square meters less than last year. The real estate industry had reversed the downward trend, indicating that real estate destocking had achieved positive results. The stability of infrastructure investment and the improvement of investment in the real estate industry had provided a good opportunity for the cement industry to reverse the downward trend.

In 2016, there were certain opportunities for the cement industry, however the external environment we faced was relatively complicated. According to the data from the Bureau of Statistics of relevant provinces or regions, in 2016, the GDP of Henan, Liaoning, Anhui and Henan where we operated in, recorded an increase of 8.1%, a decrease of 2.5%, and increases of 8.7% and 9.0% year-on-year respectively. Meanwhile, investments in fixed assets (excluding farmers) recorded an increase of 13.7%, a decrease of 63.5%, and increases of 11.7% and 12.0% year-on-year respectively. These figures indicated that investments in fixed assets in Henan, Anhui, Tianjin had recorded a lower growth rate in 2016 compared to last year, while the ones in Liaoning slumped sharply, leading to slow regional economic growth.

## CEMENT INDUSTRY

After experiencing a decline in 2015, the cement industry gradually stabilized in 2016 and embraced a limited recovery. The whole industry succeeded in achieving a low growth. According to the data of Digital Cement, in 2016, China's cement production amounted to approximately 2.4 billion tons, representing an increase of 2.5% compared to last year. The total profit of the whole industry was approximately RMB51.8 billion, representing a substantial increase of 55% over the previous year. The sales of cement remained stable and achieved slight growth. At the same time, the price of cement continued to rise. According to the monitoring of Digital Cement, the price of P.O42.5 bulk cement in the national market in 2016 fell to the lowest RMB244 per ton initially but rebounded to RMB337 per ton in December, a total increase of RMB93 per ton, up by 38%. The increase of cement price attributed to the government promotion of supply-side reform towards the cement industry, the active implementation of alternative arrangement of peak time production by government, the cement industry association and large-scale cement enterprises, as well as the reduction of disorderly price competition.

Under the background of the supply-side reform of China government, addressing overcapacity had become a priority in the cement industry. The State Council had issued on 18 May 2016 "Guidance on Promotion of Building Materials Industry to Maintain Steady Growth, to Adjust the Structure and to Increase the Efficiency" (Guo Ban Fa [2016] Doc. No. 34 (國辦發[2016] 34號文)), and once again clearly proposed that new capacity was prohibited. According to the data of Digital Cement, in 2016, the new serviced production capacity of clinker was 25.58 million tons, 46% less than last year. New capacity had been declining for four consecutive years. As of 2016, the total capacity of cement clinker design was approximately 1.83 billion tons, an increase of 1% over the previous year.

As the policies of China's cement industry mainly focused on optimizing the allocation of resources and maintaining sustainable development, the main task faced by the industry in the future was to strictly control new capacity, to eliminate backward production capacity and to save energy and reduce emission. The elimination of backward production capacity and tighten the approval of new capacity will improve the situation of supply and demand, so as to create a better business environment for the cement industry. Meanwhile, the Chinese government had strongly supported large-scale cement enterprises and encouraged the integration of the cement industry. Under the encouragement and promotion of the Chinese government, mergers and acquisitions led by major cement producers were expected to accelerate the consolidation of the cement industry.

## FINANCIAL REVIEW

### Revenue

Our revenue was approximately RMB6,008.6 million in 2016, representing a decrease of RMB186.5 million, or 3.0%, from approximately RMB6,195.1 million in 2015.

Our revenue from cement sales was approximately RMB5,736.5 million in 2016, representing a decrease of RMB108.1 million, or 1.8%, as compared with 2015. The Group took an active market strategy to face the changes of the demands and price in the cement market, which make our sales revenue decrease slightly even the sales volume decrease larger. The sales volume of our decreased by 1.7 million tons or 5.5%, from 31.2 million tons in 2015 to 29.5 million tons in 2016, which was primarily due to the demands reduction in Henan and Liaoning where the Group operates. Due to the recovery of market price, that offset the impact of sales volume decrease, our sales revenue remained stale in 2016.

Clinker is a semi-finished product used to produce cement. Our clinkers produced in 2016 were primarily used to satisfy our internal demand for cement production. Only 1.7 million tons of the Group's clinkers were sold externally. We recorded approximately RMB272.1 million of revenue generated from clinker sales in 2016, representing a decrease of RMB78.4 million, or 22.4%, from approximately RMB350.5 million in 2015.

Our revenue from sales of cement as a percentage of revenue was approximately 95.5% in 2016 and 94.3% in 2015, respectively. Our revenue from sales of clinker as a percentage of revenue was approximately 4.5% in 2016 and 5.7% in 2015, respectively.

## Cost of Sales

In 2016, we continued our efforts in reducing unit production costs of cement and clinker by leveraging on our economies of scale and through centralized procurement. Our cost of sales was approximately RMB4,491.8 million in 2016, representing a decrease of RMB456.1 million, or 9.2% as compared with 2015. The decrease was primarily due to the lower bulk purchase price of raw materials for the production of cement and clinker.

Our cost of sales mainly consists of cost of raw materials, coal and electricity. In 2016, our costs of raw materials, coal and electricity as a percentage of cost of sales were 37.7%, 24.3% and 18.4%, respectively. During the period, our costs of raw materials, coal and electricity for production of cement per tonne were RMB54.2, RMB35.0 and RMB26.5, respectively, representing a decrease of RMB8.4, an increase of RMB1.4 and a decrease of RMB1.6, respectively, as compared with 2015.

## Gross Profit and Gross Profit Margin

Our gross profit was approximately RMB1,516.8 million for the year ended 31 December 2016, representing an increase of RMB269.6 million, or 21.6%, from approximately RMB1,247.2 million last year. Our gross profit margin increased to approximately 25.2% in 2016 from 20.1% in 2015. The increase in gross profit margin was primarily due to the improvement in selling prices and decrease of unit production cost.

## Other income

Other income was approximately RMB474.5 million for the year ended 31 December 2016, representing a decrease of RMB17.0 million, or 3.5%, from approximately RMB491.5 million for the year ended 31 December 2015. The decrease was primarily due to the decrease in interest on bank deposits and the decrease in incentive subsidies from certain local governments.

## Gains on fair value changes of derivative financial assets

As reference to the circular dated 31 October 2014 (the "Circular"), the amended deed of non-competition ("Amended Non-competition Deed") undertaking was entered into by Tianrui Group Company Limited ("Tianrui Group"), controlled by Mr. Li Liufa, a non-executive director of the Company, in favour of the Company. Under the Amended Non-competition Deed, Tianrui Group granted the Group the option ("Option") to acquire the business which is or may be in competition, directly or indirectly, with the business of the Group (the "New Business Opportunity").

Under the Amended Non-competition Deed, we have the option to acquire the New Business (as defined in the Circular) or any interest in it in accordance with (a) commercial terms which (i) will not be less favourable than those applicable to the acquisition of the same New Business Opportunity by Tianrui Group in the first instance, provided that the Company shall reimburse Tianrui Group for the acquisition costs (including tax expenses, financing costs, professional fees and travelling expenses) incurred by them in respect of their acquisition of such New Business Opportunity; and (ii) have been opined by an independent financial adviser of the Company as being normal commercial terms arrived at in the ordinary course of business of the Company, fair and reasonable and in the interest of the Company and the shareholders as a whole; and (b) any requirement under the Listing Rules in relation to the acquisition of the New Business and any interest in it.

Under the Amended Non-competition Deed, we are entitled to exercise the Option at any time during the Restricted Period as defined in the Circular.

The fair value of the Options at the end of December 2016 is about RMB761,065,000. The change in fair value during the year in the amount of about RMB82,256,000 are recognized in profit or loss in the consolidated financial statements.

## Selling and Distribution Expenses

Our selling and distribution expenses were approximately RMB314.1 million for the year ended 31 December 2016, representing a decrease of RMB20.2 million, or 6%, from approximately RMB334.3 million for the year ended 31 December 2015. The decrease was primarily due to the decrease in packing expenses costs as a result of the decrease in our bagged cement sales volume.

### Administrative Expenses

Administrative expenses were approximately RMB363.4 million for the year ended 31 December 2016, representing a decrease of RMB11.1 million, or 2.9%, from approximately RMB374.5 million for the year ended 31 December 2015. The decrease in administrative expenses was mainly due to the decrease in the tax and administrative charges paid to local governments.

### Other Expenses

Other expenses were approximately RMB68.7 million for the year ended 31 December 2016, representing a decrease of approximately RMB23.3 million, or 25.3%, from approximately RMB92.0 million for the year ended 31 December 2015. The decrease in other expenses was mainly due to the decrease in expense incurred in temporary suspension period due to seasonal effect.

### Finance Costs

Finance costs were approximately RMB927.8 million for the year ended 31 December 2016, representing a decrease of RMB102.9 million, or 10.0%, from RMB1,030.7 million for the year ended 31 December 2015. The decrease was primarily attributable to the decrease in interest expenses due to decreases in the Company's total debts as compared to those of 2015.

## PROFIT BEFORE TAXATION

As a result of the foregoing, our profit before taxation was approximately RMB351.6 million for the year ended 31 December 2016, representing an increase of approximately RMB39.1 million, or approximately 12.5%, from approximately RMB312.5 million for the year ended 31 December 2015.

## INCOME TAX EXPENSES

Our income tax expenses were approximately RMB102.1 million for the year ended 31 December 2016, representing an increase of RMB73.1 million, or about 251.7% from approximately RMB29.0 million for the year ended 31 December 2015, which was mainly due to the significant increase of taxable income other than the fair value change of financial derivatives in the profit before tax.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY AND NET PROFIT MARGIN

As a result of the foregoing, our profit attributable to owners of the Company for the year ended 31 December 2016 was approximately RMB295.8 million, representing a decrease of RMB17.3 million, or about 5.5%, from approximately RMB313.1 million for the year ended 31 December 2015. The net profit margin decreased from 5.1% for the year ended 31 December 2015 to 4.9% for the year ended 31 December 2016.

## FINANCIAL AND LIQUIDITY POSITION

### Trade and other receivables

Trade and other receivables decreased from RMB3,170.1 million as at 31 December 2015 to RMB2,742.3 million as of 31 December 2016, mainly due to the decrease in balance of trade receivables and bills endorsed to suppliers.

### Amounts due from an associate

The amounts due from an associate of approximately RMB323.8 million as of 31 December 2016 (2015: RMB508.1 million) represents the advance payment paid to Ruiping Shilong for the clinker purchase in 2016 under the Clinker Supply Framework Agreement. The advance payment arrangement has been agreed after arm's length negotiation to secure clinker supply in 2017 on competitive pricing terms. For further details of the Clinker Supply Framework Agreement, please refer to the announcement dated 30 December 2016.

### Inventories

Inventories decreased from RMB832.2 million as of 31 December 2015 to RMB750.7 million as of 31 December 2016, primarily due to the decrease in the inventory cost and inventory amount during the year 2016.

### Cash and cash equivalents

Cash and bank balance increased from RMB722.3 million as of 31 December 2015 by RMB3.9 million or 0.5% to RMB726.2 million as of 31 December 2016, which maintain at the same level as the year 2015.

### Borrowings

As of 31 December 2016, the amount of total borrowings and debentures (including corporate bonds) of the Group decreased by approximately RMB2,722.9 million or 18.1% to approximately RMB12,300.3 million from RMB15,023.2 million last year. Borrowings due within one year and short-term debentures (including mid-term debentures due within one year) decreased from RMB9,426.4 million as of 31 December 2015 to RMB8,196.2 million as of 31

December 2016, borrowings due after one year, midterm debentures and long-term corporate bonds decreased from RMB5,596.8 million as of 31 December 2015 to RMB4,104.1 million as of 31 December 2016; the Group has been repaying the debts in accordance with the terms of the loan agreement, and we had unutilized bank facilities of approximately RMB1,546.4 million as of 31 December 2016.

### Principal sources of liquidity

The Group's principal sources of liquidity have historically been cash generated from operations and bank and other borrowings. We have historically used cash from such sources for working capital, production facility expansions, other capital expenditures and debt repayments. We anticipate these sources will continue to be our principal financing in the future. We expect our cash flow will be sufficient to fund our ongoing business requirements. Meanwhile, we have decided to further broaden our financing channel to improve our capital structure.

## MAJOR ACQUISITIONS AND DISPOSALS

### Acquisition of Henan Yongan Cement Company Limited (河南永安水泥有限責任公司 ("Yongan Cement")) and Tianrui Xindeng Cement Company Limited (天瑞新登水泥有限公司 ("Xindeng Cement"))

On 25 November 2016, the Company and Tianrui Group entered into the Acquisition Agreement, pursuant to which Tianrui Group conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares, which represented 100% equity interest of Yongan Cement and 55% equity interest of Xindeng Cement, at the consideration of RMB919,000,000, to be settled by the allotment and issue of the Consideration Shares by the Company to Yu Kuo, an indirect wholly-owned subsidiary of Tianrui Group, credited as fully paid, at the Issue Price upon Acquisition Completion. The Consideration Shares was approved in the extraordinary general meeting held on 27 January 2017 and issued under the Specific Mandate. The above Acquisitions have not been completed as of the date of this report. For details of the Acquisition, please refer to the announcement dated 25 November 2016 of the Company.

## GEARING RATIO

As of 31 December 2016, our Gearing ratio was 68.3%, representing a decrease of 4.3 percentage points from 72.6% as at 31 December 2015. The change of Gearing ratio was due to the decrease of the debt scale.

As of 31 December 2016, our Current ratio was 0.6, representing a decrease of 12.2% from 0.7 as of 31 December 2015. Our Quick ratio was 0.6, representing a decrease of 13.6% from 0.7 as of 31 December 2015. Changes of the above ratios were due to the decrease scale of current assets except inventory which is larger than the decrease of current liabilities.

As of 31 December 2016, our Debt Equity ratio was 2.2, representing a decrease of 0.5 or 18.7% from 2.7 as of 31 December 2015. The change of Debt Equity ratio was due to the decrease of debts during the current year.

*Notes:*

1. Gearing ratio = total liabilities/total assets X 100%;
2. Current ratio = current assets/current liabilities;
3. Quick ratio = (current assets – inventory)/current liabilities;
4. Debt Equity ratio = Total liabilities/equity interest, of which, equity interest includes minority interest and non-controlling interest

## NET GEARING RATIO

As of 31 December 2016, our net gearing ratio was 109.5%, representing an increase of 2.8 percentage points from 106.7% as of 31 December 2015. Net gearing ratio is calculated by dividing net debts by equity attributable to owners of the Company.

## CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure for the year ended 31 December 2016 was approximately RMB65.3 million (2015: approximately RMB320.4 million) and capital commitments for the year ended 31 December 2016 was approximately RMB488.8 million (2015: approximately RMB458.3 million). Both the capital expenditure and capital commitments were mainly related to the acquisition of the business, the construction of production facilities and the acquisition of buildings, plant and machinery, motor vehicles, office equipment, construction in progress and mining rights. Our Group funded capital expenditure through cash generated from operations and bank and other borrowings.

## PLEDGE OF ASSETS

As of 31 December 2016, carrying amount of the assets of the Group pledged to secure the bank borrowings granted to the Group amounted to approximately

RMB2,632.7 million (2015: approximately RMB2,028.2 million).

## CONTINGENT LIABILITIES

As of 31 December 2016, other than contingent liabilities arising from the provision of guarantee to third parties and connected parties amounting to approximately RMB1,542.0 million (31 December 2015: RMB1,522.0 million), we did not have other contingent liabilities. The guarantees provided to the connected parties have been provided pursuant to Tianrui Cement Guarantees according to the 2015 Framework Agreement Provision of Mutual Guarantees, the details of which are set out in the circular dated 30 October 2015.

## SIGNIFICANT INVESTMENTS

For the year ended 31 December 2016, save as disclosed herein, the Group neither held any material investment nor planned to make any material investment and acquire any capital assets as at 31 December 2016.

## MARKET RISKS

### Interest rate risk

We are exposed to interest rate risk resulting from our long-term and short-term borrowings. We review our borrowings regularly to monitor our interest rate exposure, and will consider hedging significant interest rate exposure should the need arise. As our exposure to interest rate risk relates primarily to our interest-bearing bank loans, our policy is to keep our borrowings at variable rates of interest so as to minimize fair value interest rate risk, and to manage our interest rate exposure in all of our interest-bearing loans through the use of a mix of fixed and variable rates.

### Liquidity risk

We have established an appropriate liquidity risk management system for our short, medium and long-term funding and liquidity management requirements. We manage the liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in (both actual and forecasted) cash flows. Our management also monitors the utilization of bank borrowings and ensures compliance with loan covenants.

### Exchange rate risk

Certain pledged bank balances and other receivables of the Group are denominated in Hong Kong Dollar ("HK$") and borrowings are denominated in United States Dollar ("US$"), therefore exchange rate movement exposure is incurred. Currently, the Group does not have any foreign currency hedge strategy in relation to foreign currency exposure. However, the management will closely monitor exchange rate risk in HK$ and US$ and will consider to hedge material currency exposure if necessary.

## EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2016, our Group had 8,066 employees (31 December 2015: 8,398). As of 31 December 2016, the employees' cost (including remuneration) was approximately RMB387.3 million (2015: approximately RMB376.0 million). The remuneration policies, bonus and training programs for employees of our Group were implemented continuously according to policies disclosed in the 2012 Annual Report of the Company and no change has been made for the year ended 31 December 2016.

Pursuant to relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board establishes a remuneration committee to formulate the remuneration policy for directors and senior management, to ensure a formal and transparent procedure for the Company. Remunerations of the employees of the Group, including Directors, are generally determined on account of the prevailing market conditions, individual qualification and company duties. With a system mainly focus on annual salary and annual target responsibility, senior management personnel and managements from all branches and subsidiaries will be assessed and restricted. At the beginning of the year, the Company signed an annual letter of target responsibility with senior management personnel and management from all branches and subsidiaries in relation to key indicators such as production and sales volume, costs, profit, control targets as well as performance requirements for annual duties. At the end of the year, the Company carried out performance assessment and evaluation on the annual operating performance and work and management capabilities of senior management and management from branches and subsidiaries, and was linked up to their annual remuneration. Salary is generally determined on individual performance of the staff and will be reviewed regularly, which is based on the responsibility of position and is linked to the overall operating efficiency of the Company and assessed monthly against the performance salaries of the positions.

The Company values the employees as the most valuable asset, and strongly believe that an improvement of the loyalty of the employees is the core idea of operating successfully, therefore maintaining effective communication will employees of all levels is highly rated. Pursuant to the relevant laws and regulations of the PRC, remuneration and benefits provided to all employees include salary, allowances and social benefits such as retirement insurance, job casualty insurance, medical insurance and unemployment insurance, and will be reviewed regularly by management. The Company also invests on management of all levels and other employees in relation to on-the-job trainings and professional skill and technique trainings, for the purpose of continuously improve their quality of skills and knowledge. For the year ended 31 December 2016, we organized a range of trainings for a total of 5,992 session-hours, i.e. 45-50 minutes for every session-hour, for which a total of 88,675 attendance recorded for employees trained.

## PROSPECTS

Under enormous economic pressures in 2016, the Government maintained relatively high speed of economic growth through a series of regulating and control measures and has been reforming and adjusting the economic structure constantly at the same time. In the face of the global economic downturn, the increased instability of the international environment, and the fact that the domestic economic growth has not fundamentally changed in 2017, the Chinese Government has set the goals that the GDP was to increase by 6.5%, the energy consumption per unit of GDP was to decline by more than 3.4%, and the main pollutant emissions was to continue to decline, etc. Meanwhile, it had also put forward the target to adhere to the reform of the supply-side, to promote the upgrading of consumption and effective investment phase, regional urban and rural development coordination, to enhance the lasting pulling functions of domestic demands for economic growth, to deepen the cooperation between the government and social capital, thus setting the direction for economic growth in 2017. The Central Government of China has determined to complete the railway construction investment of RMB800 billion and the road and water transport investment of RMB1.8 trillion, before commencing 15 major water conservancy projects and more than 2,000 km of urban underground integrated corridor construction, to promote the construction of Sponge City, and to continue to strengthen the rail transport, civil aviation and other major project construction in 2017. These policies and goals will inevitably lead to increased investment in infrastructure projects, while the real estate industry's inventory and recovery will support the stable cement demands.

In the macro-control context of the supply-side reform and reduction of overcapacity, the cement industry will face the trends of prohibiting new capacity, eliminating backward production capacity, promoting joint restructuring, implementing alternative production arrangements, upgrading cement products, developing new materials and strengthening the greening and environmental-protection, etc. As one of the 12 major national cement companies recognized by the Chinese Government and one of the five cement companies designated by the Ministry of Industry and Information Technology, the Group has been encouraged to assume the responsibility of merging and consolidating the central cement market. To encourage the integration of the cement industry, the Chinese Government has provided support for designated companies, such as tax incentives and special projects or financing approvals. As the Government requires the enhancement of environmental protection and the improvement of the air quality, the State Council has put forward the 24-hour online monitoring of all the key industrial pollution sources. The Government has determined the compliance deadline of non-compliant enterprises and will close non-compliance enterprises after the due date uncompromisingly. In the face of the external policy of the cement industry, grasping opportunities to the fullest, we will continue to work on the integration and coordination of regional markets through internal structure adjustment and enhance our leading market positions in Henan and Liaoning by virtue of our own and policy advantages.

In addition, we will further expand the scope of the unified purchase of materials, strengthen fine management, and improve the production efficiency, so that we can further reduce the unit production costs and then maintain our leading positions in other markets. We believe that maintaining and increasing the cost advantages will be beneficial for the Group to enjoy more robust profitability in Henan and Liaoning cement markets compared with our main competitors. In order to expand our market coverage, we will also put forward the strategic acquisition at the appropriate time.

# Profiles of Directors and Senior Management

## DIRECTORS

As at 31 December 2016, our Board consisted of eight Directors, comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. The Board is responsible for and has general powers over the management and conduct of our business. The table below shows certain information in respect of the members of our Board:

| Name | Age | Main Position |
|---|---|---|
| Li Liufa | 59 | Non-executive Director and Chairman of the Board of Directors |
| Xu Wuxue | 41 | Executive Director and Chief Financial Officer |
| Li Jiangming | 39 | Executive Director and Joint Company Secretary |
| Li Heping | 60 | Non-executive Director |
| Yang Yongzheng | 48 | Non-executive Director |
| Wang Ping | 46 | Independent non-executive Director |
| Kong Xiangzhong | 62 | Independent non-executive Director |
| Du Xiaotang | 43 | Independent non-executive Director |

### Chairman and Non-executive Director

**Mr. Li Liufa (李留法)**, male, aged 59, is a non-executive Director and the chairman of our Board. He is the founder of our Group. Mr. Li was appointed as a non-executive Director on 2 July 2011. Chairman Li is primarily responsible for our Group's overall strategic planning and the management of our Group's business. Chairman Li has extensive experience in the cement industry. He was a non-executive Director of Sanmenxia Tianyuan Aluminum Company Limited (a company previously listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 8253.HK) from March 2006 to July 2008. Chairman Li was the representative of Henan province in the Tenth National People's Congress in March 2003, the Eleventh National People's Congress in March 2008 and the Twelfth National People's Congress in March 2013. Chairman Li has been the executive director, executive director-chairman of the board of directors of China Shanshui Cement Group Limited (691.HK) ("Shanshui Cement") since 1 December 2015 to 31 May 2016. Chairman Li obtained his executive MBA degree from Peking University (北京大學) in 2006. Chairman Li was named "Model Worker of Henan Province (河南省勞動模範)" in 1999. In January 2005, he was awarded "Henan Province Excellent Entrepreneur (河南省優秀民營企業家)" by the People's Government of Henan Province.

### Executive Directors

**Mr. Xu Wuxue (徐武學)**, male, aged 41, is an executive Director of the Company, the Chief Financial Officer and a member of the remuneration committee. Mr. Xu was appointed as an executive Director and Chief Financial Officer of the Company on 11 May 2013. He has 15 years of experience in finance and accounting. Mr. Xu joined the Group in 2006 and served as the Deputy Financial Controller and head of the finance department of Tianrui Cement, and was appointed as the Chief Financial Officer of Tianrui Cement on 9 January 2013. Before that, Mr. Xu served as a clerk of the finance department of Ruzhou Tongyong Casting Co., Ltd. (汝州市通用鑄造公司) and the deputy general manager and head of the finance department of Xingfeng Group Co., Ltd. (星峰集團有限責任公司) and the director of Tianrui Group Finance Company Limited since 14 July 2015. Mr. Xu graduated from Luoyang Industrial College (洛陽工業高等專科學校), majoring in finance, in 1996.

**Mr. Li Jiangming (李江銘)**, male, aged 39, is an executive Director, a joint company secretary and authorized representative of the Company and a vice general manager of capital operation of the Group and a chief representative for Hong Kong business. He is mainly responsible for capital market investment and financing business and investor relations. Mr. Li was appointed as the joint company secretary of the Company on 1 March 2013, was appointed as the executive Director of the Company on 11 June 2014, and was re-elected as executive Director on 2 June 2015. Mr. Li has extensive experience in capital operation and had participated in the whole process of Initial Public Offering of China Tianrui Group Cement Company Limited on the Hong Kong Stock Exchange. After joining our Group, Mr. Li served as the sales manager of Tianrui Group Zhengzhou Cement Company Limited, the deputy head of the capital operation department of Tianrui Cement, the general manager of Zhengzhou Tianrui Cement Company Limited and the assistant to the general manager of the Company and director of Hong Kong Office of the Company. Before joining the Group, Mr. Li had been a marketing assistant of Henan Xinfei Electric Appliance Co., Ltd. (河南新飛電器有限公司) and a Requirement Engineer of China E-port Data Center (中國電子口岸數據中心). Mr. Li obtained his master's degree from Wuhan University of Technology (武漢理工大學), majoring in international economics and trade, and obtained the securities practice qualification from the Securities Association of China. Mr. Li Jiangming is the younger brother of the spouse of Chairman Li.

## Non-executive Directors

**Mr. Li Heping (李和平)**, aged 60, is a non-executive Director of the Company. Mr. Li was appointed as a non-executive Director of the Company on 4 December 2015. Before that, Mr. Li was the executive director of the Company between 9 December 2011 and 26 April 2013, and chief executive officer of the Company between 9 December 2011 and 30 November 2015. Mr. Li used to serve as the chief accountant of Luoyang Mining Machinery Factory (洛陽礦山機器廠), the deputy head of the Commission for Restructuring the Economic System of Henan Province (河南省經濟體制改革委員會), the general manager of Zhongxin Heavy Machinery Company (中信重型機械公司) and a director and senior management member of Tianrui Group Company Limited. Mr. Li was a non-executive Director and the chairman of the board of Sanmenxia Tianyuan Aluminum Company Limited (a company which was listed on the Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") with the stock code of 8253.HK) between March 2006 and May 2012, currently an executive director and a member of executive committee of China Shanshui Cement Group Limited ("Shanshui Cement", a company listed on the Hong Kong Stock Exchange with the stock code of 691.HK) since 1 December 2015, the chairman and legal representative of Shandong Shanshui Cement Group Co., Ltd., a wholly owned subsidiary of Shanshui Cement since 3 December 2015, the chief executive officer of Shanshui Cement since 16 December 2015 and a director of Henan Tongli Cement Co., Ltd (a company listed on the Shenzhen Stock Exchange with the stock code of 000885.SZ). Mr. Li graduated from Henan University of Science & Technology (河南科技大學) (formerly known as Luoyang Institute of Agricultural Machinery) (洛陽農機學院) with a bachelor's degree in mechanic engineering in 1982 and Tsinghua University (清華大學) with a master's degree in engineering in 1988. Mr. Li also holds qualifications of "Senior Engineer" and "Senior Accountant".

**Mr. Yang Yongzheng (楊勇正)**, male, aged 48, is a non-executive Director of the Company and a member of the Nomination Committee. Mr. Yang was re-designated from an executive director to a non-executive Director of the Company on 3 December 2015. Before that, Mr. Yang was an executive Director of the Company from 11 May 2013 to 2 December 2015, the Chief Operating Officer of the Company from 1 October 2013 to 2 December 2015, a member of the Nomination Committee of the Board, and general manager of Tianrui Cement from 2012 to 2 December 2015. He has extensive experience in the cement industry and is primarily responsible for the daily production and operation of the Company and its subsidiaries (collectively the "Group"). Mr. Yang joined the Group in 2004, and has served as the deputy general manager of Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司) and Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司), the general manager of Yingkou Tianrui Cement Company Limited (營口天瑞水泥有限公司) and the chairman and general manager of Liaoyang Tianrui Cement Company Limited (遼陽天瑞水泥有限公司) ever since. Mr. Yang is a director and general manager of Shandong Shanshui Cement Group Co., Ltd., a wholly-owned subsidiary of Shanshui Cement since December 2015. Mr. Yang obtained his bachelor degree in Petroleum and Engineering from Henan University in 1991 and obtained his EMBA from Peking University in 2012. In June 2012, Mr. Yang was awarded "Advanced Worker in the Mining Industry and Building Material Industry of Small and Medium Enterprises in Liaoning Province" (遼寧省中小企業礦業建材行業先進工作者). Mr. Yang obtained the title of "Senior Economist" in December 2013.

## Independent non-executive Directors

**Mr. Wang Ping (王平)**, male, aged 46, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee. Mr. Wang was appointed the independent non-executive Director on 24 December 2012.

Mr. Wang has nearly 15 years of experience in corporate finance, audit, accounting and taxation. He was an executive director and chief financial officer of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Stock Exchange (stock code:1269) from April 2014 to December 2015 and March 2012 to December 2015 respectively. In December 2010, Mr. Wang joined Guang Da (China) Automotive Components Holdings Limited, a subsidiary of China Vehicle Components Technology Holdings Limited as a senior vice president, prior of that, Mr. Wang Ping worked for EV Capital Pte Ltd., a financial advisory and consulting firm focusing on initial public offerings, capital raising and private equity investments, from May 2007 to March 2010 as vice president and subsequently as director in May 2008. From February 2004 to March 2007, he served as chief financial officer for China Jishan Holdings Limited, the shares of which are listed on the main board of Singapore Stock Exchange. From September 1999 to August 2002, he served as a senior accountant and subsequently a manager for audit department of Deloitte Touche Tohmatsu CPA Ltd. Mr. Wang Ping has been serving as an independent non-executive director of China Hangking Holdings Limited (Stock Code: 3788), a company listed on the Stock Exchange since February 2011, an independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. which is listed on the Shenzhen Stock Exchange since November 2010, an independent non-executive director of Shenzhen Fuanna Bedding and Furnishing Co. Ltd., a company listed on the Shenzhen Stock Exchange since December 2013, an independent non-executive director of Jia Yao Holdings Limited (Stock Code: 1626), a company listed on the Stock Exchange since June 2014 and an independent non-executive director of China Sinostar Group Company Limited (formerly known as Shihua Development Company Limited) (Stock Code: 485), a company listed on the Stock Exchange since July 2014 and an independent non-executive director of Sichuan CRUN Co., Ltd. which is listed on the Shenzhen Stock Exchange since March 2016. He was appointed an independent non-executive director of Shenzhen Zowee Tech. Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002369), in July 2016. Mr. Wang Ping graduated from Nanjing University and obtained a Master's Degree in Business Administration from Lingnan (University) College of Sun Yat-Sen University in 2004. He is a member of the Chinese Institute of Certified Public Accountants.

**Mr. Kong Xiangzhong (孔祥忠)**, male, aged 62, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Kong was appointed as an independent non-executive Director on 24 December 2012.

Mr. Kong currently serves as the vice chairman and secretary of China Cement Association. He is a senior engineer and an expert entitled to special allowance from the State Council. Mr. Kong was appointed as an independent non-executive Director of Jilin Guanghua Holding Group Co., Ltd. (Stock Code: 000546), a company listed on Shenzhen Stock Exchange in 2012. Mr. Kong graduated from Inorganic Materials Department of Shandong Building Materials Industry Institute (山東建築材料工業學院) in 1982. He has long engaged in cement technology research and development, engineering design and technical management, and held various positions including the deputy office head of Hefei Cement Research and Design Institute, director of the cement grinding department and chief engineer of Hefei Cement Research and Design Institute. Mr. Kong has also participated in and led many projects at national, provincial and ministry levels. He has served as the chief person in charge of design and engineering of some projects and a responsible person for a project financed by the World Bank.

**Mr. Du Xiaotang (杜曉堂)**, male, aged 43, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Du was appointed as an independent non-executive Director on 11 June 2014.

Mr. Du is currently a department managing director of China Everbright Limited (Stock Code: 165), a company listed on the Hong Kong Stock Exchange, since 2014. Mr. Du is also currently an independent non-executive director of Shanghai Inoherb Cosmetics Co., Ltd (上海相宜本草化妝品股份有限公司) since 2011 and an independent non-executive director of Jiangsu Jinshan Environmental Protection Co., Ltd (江蘇金山環保股份有限公司) since 2012 to 2016. Mr. Du was a teacher at Henan University (河南大學) between 1996 and 2002, and was an associate and then a partner with Grandall Law Firm (國浩律師事務所) (a PRC law firm) between 2003 and 2013. Mr. Du's working experience mainly covers corporate finance, capital market, private equity, merger and acquisitions and legal compliance advisory to listed companies, securities firms and mining companies. Mr. Du obtained his bachelor degree in education and master degree in law from Henan University (河南大學) in 1996 and 2002 respectively, and doctorate degree in economics from Fudan University (復旦大學) in 2005. Mr. Du is a qualified PRC lawyer.

## Senior Management

**Mr. Ding Jifeng (丁基峰)**, male, aged 47, is a general manager of our Group. Mr. Ding joined our Group in December 2007 and has worked as deputy general manager of Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司), deputy general manager of Tianrui Group Zhengzhou Cement Company Limited (天瑞集團鄭州水泥有限公司), general manager of Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司), chairman and the general manager of Weihui Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) ever since. He has extensive experience in the cement industry and is primarily responsible for the daily sales, administrative and human resources management of our Group (the Company and its subsidiaries are collectively referred to as our "Group"). Before joining our Group, he served in Jiaxian Tian Guang and Pingding Shan Xingfeng Group since 1991. Mr. Ding graduated from Henan University in 1996, majoring in economic management. He has the title of "Economist".

**Mr. Jing Xianyu (井獻玉)** (formerly known as Jing Xianyu (井現於)), male, aged 52, is a deputy general manager of our Group. He has extensive experience in the cement industry and is primarily responsible for production and quality related management. Mr. Jing joined our Group in 2000 and has worked as general manager of Weihui Cement and Yuzhou Cement, chairman of Zhengzhou Cement (Xingyang) and Zhengzhou Tianrui ever since. He has been the deputy general manager and executive deputy general manager of Tianrui Cement from February 2008 to 2012 and from 25 February 2012 to 2016 respectively. Mr. Jing obtained his executive MBA degree from Peking University (北京大學) in 2008. Mr. Jing was recognized as "Outstanding Leader of Quality Management of National Building Material Industry (全國建材行業品質管制卓越領導者)" in July 2008 and was named "60th Anniversary of the Founding of PRC Henan Province Meritorious Entrepreneur (建國60周年河南省建材工業功勛企業家)" in September 2009.

**Mr. Xu Wuxue (徐武學)**, male, aged 41, is the Chief Financial Officer of our Company and the Financial Controller of our Group. Details of Mr. Xu's profile is set out in the section headed "Directors" above.

**Mr. Zhao Huibin (趙惠斌)**, male, aged 60, is a deputy general manager of our Group. He has over 30 years of experience in the cement industry and is primarily responsible for assisting the general manager to manage the market development, sales management, primary assessment of development projects and progress coordination. Mr. Zhao joined our Group in 2002 and has served as deputy general manager of Tianrui Cement. He was also the manager of the Development Department of Tianrui Cement and was responsible for preparation of construction projects. Mr. Zhao obtained his master's degree from Macau University of Science and Technology (澳門科技大學) in 2008. Mr. Zhao holds a qualification of "Senior Engineer" and was awarded 2003 Excellent Entrepreneur in National Building Material Industry (2003年度全國建材行業優秀企業家) in September 2003.

**Mr. Gao Yunhong (高運紅)**, male, aged 46, is a deputy general manager of our Group. He has extensive experience in the cement industry and is primarily responsible for the sales of the Group. Mr. Gao joined the Group in 2005 and served as the deputy general manager of Ruzhou Cement, Zhengzhou Cement and Guangshan Cement (光山水泥) successively. He graduated from the PLA Information Engineering University, majoring in computer science and technology, in 2008. In the same year, Mr. Gao was awarded as "Model Worker of Zhengzhou City" and "60th Anniversary of the Founding of PRC Henan Province Excellent Entrepreneur in Building Material Industry (建國60周年河南省建材工業優秀企業家)".

**Mr. Li Jiangming (李江銘)**, male, aged 39, is a vice general manager of capital operation of the Group and a chief representative for Hong Kong business. Details of Mr. Li's profile is set out in the section headed "Directors" above.

**Mr. Lv Xing (呂行)**, male, aged 38, is the deputy financial controller of our Company and a deputy chief accountant of our Group. Mr. Lv joined the Company as a deputy chief accountant in 2012 and was appointed as the deputy financial controller of our Company on 1 October 2013, and is primarily responsible for the review and analyzing of financial reports, finance and mergers and acquisitions business. Mr. Lv has extensive experience in financing. He served as an assistant auditor, senior auditor and an audit manager in Deloitte Touche Tohmatsu since 2001 prior to joining the Company. Mr. Lv graduated from Beijing University of Industry and Commerce (北京工商大學) with bachelor's degree in economics in 2001. Mr. Lv holds the certificate of "Certified Public Accountant".

**Ms. An Jiamin (安嘉敏)**, female, aged 63, is a deputy chief accountant of our Group. Ms. An joined the Company as a deputy chief accountant in 2011 and is primarily responsible for cost management and internal control of the Group. Ms. An has extensive experience in financing. She served as the head of division of cost under finance department of Luoyang Mining Machinery Plant (洛陽礦山機器廠), deputy head of finance department of Luoyang Heavy Casting and Forging Plant (洛陽重型鑄鍛廠), and head of the general conservation office of Citic Heavy Industries Co., Ltd prior to joining the Company. Ms. An graduated from Mechanical and Electrical Institute (瀋陽機電學院) of Shenyang, majoring in industrial accounting. Ms. An holds a qualification of"Senior Accountant".

## Joint Company Secretaries

**Mr. Li Jiangming (李江銘)**, male, aged 39, was appointed as the joint company secretary of the Company on 1 March 2013 and was appointed as authorized representative of the Company on 10 September 2015. Details of Mr. Li's profile is set out in the section headed "Directors" above.

**Mr. Yu Chunliang (喻春良)**, male, aged 47, was appointed as one of the joint company secretaries of our Company on 9 December 2011 and ceased to be authorized representative of the Company on 10 September 2015. Mr. Yu joined our Group in 2005 as deputy head of the general office of Tianrui Cement. He was later appointed as deputy head of the human resources department of Tianrui Cement. He was then appointed as head of the administrative office and head of the board office of Tianrui Cement. Prior to joining our Group, he was the secretary of the disciplinary committee of Pingdingshan Xingfeng Group Cement Co., Ltd. (平頂山星峰集團水泥有限公司). Mr. Yu was appointed as the joint company secretary of Shangshui Cement since 2 February 2016. Mr. Yu obtained his bachelor's degree in arts from Xinyang Normal University (信陽師範學院) in 1992 and his postgraduate degree in economic management from the Party School of CPC of Henan province (中共河南省委黨校) in 2007. He holds the qualifications of "Ideological and political work of senior professional titles" (高級政工師) and "National Second Level Corporate Human Resources Manager".

**Ms. Kwong Yin Ping Yvonne (鄺燕萍)**, female, aged 61, was appointed as one of the joint company secretaries of our Company on 16 January 2013 and was re-designated from alternate authorized representative to authorized representative of the Company on 4 December 2015. Ms. Kwong holds a Degree in Accountancy from the Hong Kong Polytechnic University (香港理工大學) and is a Fellow of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

# Report of the Directors

The Board hereby presents this Annual Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016 (the "Consolidated Financial Statements").

## PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 7 February 2011 as an exempted company with limited liability. The Group's operations are substantially conducted through its subsidiaries in the PRC. The Group is principally engaged in the excavation of limestone, production, sale and distribution of clinker and cement. Details of the principal subsidiaries of the Group during the year ended 31 December 2016 are set out in Note 52 to the Consolidated Financial Statements.

Details of the business review of the Company are set out in the section of "Management Discussion and Analysis — Business Environment" of this annual report which forms part of the directors' report.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in this Annual Report.

The Board did not propose the declaration of final dividend for the year ended 31 December 2016 (2015: Nil).

## FINANCIAL SUMMARY

A summary of our results and the assets and liabilities for the current financial year and for the past five financial years, as extracted from the Group's audited consolidated financial statements, is set out in the section headed "Financial Summary" of this Annual Report which forms part of the directors' report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in Note 17 to the Consolidated Financial Statements of this Annual Report.

## BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings are set out in Notes 32, 33, 36 and 37 to the Consolidated Financial Statements of this Annual Report.

## SHARE CAPITAL

There is no change in the share capital of the Company during the year ended 31 December 2016.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity of this Annual Report.

## DISTRIBUTABLE RESERVES OF THE GROUP

The Group's reserves available for distribution to shareholders as at 31 December 2016 amounted to RMB5,349.3 million (31 December 2015: RMB5,085.0 million).

## PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of our Directors, our Company has maintained the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as at the date of this Annual Report.

## PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive right under the Company's articles of association or applicable laws of the Cayman Islands where the Company was incorporated.

## DIRECTORS

The Directors of the Company as at 31 December 2016 were:

### Non-executive Director and Chairman of the Board of Directors

Mr. Li Liufa

### Executive Directors

Mr. Xu Wuxue
Mr. Li Jiangming

### Non-executive Directors

Mr. Li Heping
Mr. Yang Yongzheng

### Independent Non-executive Directors

Mr. Kong Xiangzhong
Mr. Wang Ping
Mr. Du Xiaotang

## DIRECTORS' PROFILES

Details of the Directors' profiles are set out in the section headed "Profiles of Directors and Senior Management" of this Annual Report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with our Company for a term of three years with effect from their respective date of appointment or re-appointment unless terminated by a not less than three months notice in writing served by either the executive Director or our Company. Each of the non-executive Directors and independent non-executive Directors has signed an appointment letter with the Company for a term of three years (as for Chairman Li, a non-executive Director) and one year (as for Mr. Li Heping and Mr. Yang Yongzheng (other non-executive Directors) and all independent non-executive Directors), respectively, with effect from the dates of their respective appointment or re-appointment. The appointment is subject to the provisions of retirement and rotation of directors under the Articles of Association.

None of the Directors who would offer themselves for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

The Company has arranged appropriate insurance cover for the directors of the Company in respect of legal action against the directors during the year of 2016.

## CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Mr. Wang Ping, Mr. Kong Xiangzhong and Mr. Du Xiaotang, the confirmation of their respective independence pursuant to rule 3.13 of the Listing Rules. We consider that each of our independent non-executive Directors has been independent during their respective appointment period in 2016 and remains independent as of the date of this Annual Report.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of our Directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, were as follows:

| Name of Director | Capacity/Nature of Interests | Total number of shares | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Mr. Li Liufa[(1) (2)] | Interests in controlled corporation/Long position | 1,487,381,647 | 61.95 |

(1) Mr. Li Liufa is deemed to be interested in the shares held by Yu Kuo Company Limited (煜闊有限公司) ("Yu Kuo") by virtue of Yu Kuo being ultimately controlled by Mr. Li Liufa through Tianrui Group Company Limited (天瑞集團股份有限公司), ("Tianrui Group Company"), Tianrui (International) Holding Company Limited (天瑞(國際)控股有限公司) ("Tianrui International"), Holy Eagle Company Limited (神鷹有限公司) and Yu Qi Company Limited ("Yu Qi") (details of which is set out in the "Corporate Structure" of this annual report).

(2) On 26 May 2016, Yu Kuo has executed the relevant documentation to create a charge ("Share Charge") over 515,000,000 shares in the share capital of the Company in favour of The Export-Import Bank of China, a financial institution, as security for a loan advanced by the Lenders to Yu Kuo and/or its nominees.

(3) Pursuant to the announcement issued by the Company on 25 November 2016, Yu Kuo was interested in 537,381,647 consideration shares. Therefore, Mr. Li Liufa was deemed to be interested in the consideration shares owned by Yu Kuo and the interest in the consideration shares was not completed as at the date of this report.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 25 November 2016, the Company and Tianrui Group Company Limited (an entity controlled by Chairman Li) entered into an acquisition agreement, pursuant to which Tianrui Group Company Limited conditionally agreed to sell the 100% of the equity interest in Yongan Cement and 55% of the equity interest in Xindeng Cement at a total consideration by the allotment and issue of consideration shares of RMB919,000,000 to Yu Kuo Company Limited, an indirect wholly-owned subsidiary of Tianrui Group Company Limited. This acquisition agreement was approved at the extraordinary general meeting dated 19 January 2017. However, as of the date of this report, it has yet to be completed. For further details, please refer to the announcement of the Company dated 25 November 2016.

Other than the above, at no time during the period ended 31 December 2016 was the Company or any of its subsidiaries a party to any arrangement that would 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 any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the period ended 31 December 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities. The Company's proposed issue of consideration shares for the proposed acquisition of Yongan Cement and Xindeng Cement, and it is yet to be completed in this period. For details, please refer to the section of "Directors' Rights to Acquire Shares or Debentures" and the announcement dated 25 November 2016.

## COMPLIANCE WITH NON-COMPETITION UNDERTAKING

Reference is made to the circular ("Circular") of the Company dated 31 October 2014 in relation to the amended deed of non-competition ("Amended Non-competition Deed") which has been approved in the extraordinary general meeting of the Company on 17 November 2014 ("Effective Date"). Unless stated otherwise, capitalized terms used herein shall have the same meaning as those defined in the Circular.

Under the Amended Non-competition Deed, the Controlling Shareholders are allowed to pursue New Business Opportunity after they have fulfilled the notification and best-effort requirements as set out in the Amended Non-competition Deed. Further, the Controlling Shareholders have undertaken to, inter alia, grant the Company the Option to acquire the New Business Opportunity upon the terms which are not less favourable than the acquisition in the first instance. The independent board committee should periodically review the New Business Opportunities, in order to determine whether to exercise the Option and disclose the basis for the decision.

The Board (including the independent non-executive directors) have duly reviewed the competing business owned by Tianrui Group Company (the controlling shareholder) pursuant to the Amended Non-competition Deed:

### (1) Pingdingshan Ruiping Shilong

Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司) ("Ruiping Shilong") is a limited liability company incorporated in the PRC, of which 40% is owned by Tianrui Cement (the Company's wholly-owned subsidiary) and 60% is owned by Ruiping Power. Ruiping Power is held by Tianrui Foundry (indirectly and jointly wholly-owned by Chairman Li and Mrs. Li (Chairman Li's spouse)) as to 40% and by an Independent Third Party as to 60%.

Ruiping Shilong is engaged in manufacturing and selling clinker in certain areas of Henan province, so its business competes with the Company's clinker operation in those areas.

As at 31 December 2016, the Directors held the view that the Group is financially and operationally independent from Ruiping Shilong. The Controlling Shareholders currently have no intention to inject their indirect interest in Ruiping Shilong into the Group.

### (2) Shanshui Cement

As at 31 December 2016, Tianrui (International) Holding Company Limited, a wholly-owned subsidiary of Tianrui Group Company which is owned as to 70% by Chairman Li, has acquired a total of 951,462,000 shares of China Shanshui Cement Group Limited (691.HK) ("Shanshui Cement", a company which is listed on the Main Board of the Stock Exchange of Hong Kong Limited) representing approximately 28.16% issued share capital of Shanshui Cement. Shanshui Cement is engaged in production of clinker and cement in China.

As at 31 December 2016, the Directors held the view that the Group is financially and operationally independent from Shanshui Cement. The Company has an option to acquire the shares in Shanshui Cement pursuant to the Non-competition Deed, but has decided not to exercise the said option at this stage after considering, among others, the recent financial performance of Shanshui Cement.

### (3) Tongli Cement

As at 31 December 2016, Tianrui Group Company Limited (天瑞集團股份有限公司) which is owned as to 70% by Chairman Li has acquired a total of 71,365,588 shares ("Tongli Shares") of Henan Tongli Cement Co., Ltd. (000885) ("Tongli Cement", a company which is listed on the Shenzhen Stock Exchange), representing approximately 15.03% equity interests of Tongli Cement as at 31 December 2016. Tongli Cement is engaged in, among others, the manufacture and sale of cement in China.

As at 31 December 2016, the Directors held the view that the Group is financially and operationally independent from Tongli Cement. The Company has an option to acquire the shares in Tongli Cement pursuant to the Non-competition Deed, but has decided not to exercise the said option at this stage after considering, among others, the recent financial performance of Tongli Cement. Also, on 9 February 2017, Tianrui Group Company Limited enquired if the Company would exercise the option or, if not, agreed to reduce the shareholding in Tongli Cement. The Company decided not to exercise the option and agreed to reduce the shareholding in Tongli Cement. According to the proposition of Tianrui Group Company Limited, the profit from the reduction in shareholding will be vested to the Company. As of the date of this report, Tianrui Group Company Limited has reduced a total of 48,251,488 shares of Tongli Cement, and the remaining shares held by it would be 23,114,100 shares, representing 4.66% of the total share capital of Tongli Cement (the total amount of share capital after private placement on 22 February 2017).

### (4) Xindeng Cement, Yongan Cement

On 25 November 2016, the Company and Tianrui Group Company Limited (an entity controlled by Chairman Li) entered into an acquisition agreement, pursuant to which Tianrui Group Company Limited conditionally agreed to sell the 100% of the equity interest in Yongan Cement and 55% of the equity interest in Xindeng Cement at a total consideration by the allotment and issue of consideration shares of RMB919,000,000 to Yu Kuo Company Limited, an indirect wholly-owned subsidiary of Tianrui Group Company Limited. This acquisition agreement was approved at the extraordinary general meeting dated 19 January 2017. However, as of the date of this report, it has yet to be completed. For further details, please refer to the announcement of the Company dated 25 November 2016.

## COMPETING BUSINESS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in the section headed "Compliance with Non-competition Undertaking" above, none of the Directors or Controlling Shareholders was interested in any business which competes or is likely to compete (directly or indirectly) with the business of the Group during the year ended 31 December 2016.

During the reporting period, the independent non-executive Directors have reviewed the compliance with the Non-competition Deed based on information and confirmation provided by or obtained from the Controlling Shareholders and their respective associates (as defined under the Listing Rules), and were satisfied that the controlling shareholders of the Company, namely, Mr. Li Liufa, Ms. Li Fengluan, Tianrui Group Company Limited, Tianrui (International) Holding Company Limited, Holy Eagle Company Limited, Yu Kuo Company Limited and Yu Qi Company Limited (collectively, the "Controlling Shareholders") and their respective associates have complied with the provisions of the Amended Deed of Non-competition Undertaking entered into between the Company and the Controlling Shareholders on 16 October 2014 (the "Amended Deed of Non-competition Undertaking").

## DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2016, save as disclosed in "Compliance with Non-competition Undertaking", "connected transaction and continuing connected transactions" or otherwise in this annual report, no contract of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party, and in which a Director or Controlling Shareholder of the Company had a material interest, whether directly or indirectly subsisted at the closing or any time during the year.

## DIRECTORS' REMUNERATION

Our Directors' fees are subject to shareholders' approval at general meetings. Other emoluments, bonus and benefits are proposed by our Remuneration Committee to the Board and determined with reference to the prevailing market conditions, Directors' duties, responsibilities and our performance and results.

The details of the emoluments paid to the five highest paid individuals among Directors and Senior Management of the Company during the year are set out in Notes 13 and 14 to the Consolidated Financial Statements of this Annual Report.

## RETIREMENT SCHEMES

The employees of the Group members in the PRC are members of a state-managed employee benefit plans operated by the PRC government such as pension funds, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing funds. The Group is required to contribute a specified percentage of its payroll costs to the employee benefit plans to fund the benefits

The Group's contributions to the employee benefit plans for the year ended 31 December 2016 were RMB29.5 million. Particulars of these plans are set out in Note 46 to the Consolidated Financial Statements of this Annual Report.

## MANAGEMENT CONTRACTS

Other than employment with employees of the Company, 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 with any individual, company or body corporate during the year.

## CHANGE OF HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

With effect from 25 March 2017, the Company's headquarters and principal place of business in the PRC has been changed from "21st Floor, Hailian Building, Shang Wu Wai Huan Road No. 20, Zheng Dong Xin District, Zhengzhou City, Henan Province, PRC" to "No. 63 Guangcheng Road East, Ruzhou City, Henan Province, PRC".

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, to the best knowledge of the Directors and the senior management of the Company, the persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO were as follows:

| Name | Capacity/Nature of interests | Total number of shares | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Yu Kuo | Beneficial owner/Long position(1) | 1,487,381,647 | 61.95 |
| Tianrui Group | Interest of corporation controlled by the substantial shareholder/Long position(1) | 1,487,381,647 | 61.95 |
| Tianrui International | Interest of corporation controlled by the substantial shareholder/Long position(1) | 1,487,381,647 | 61.95 |
| Holy Eagle | Interest of corporation controlled by the substantial shareholder/Long position(1) | 1,487,381,647 | 61.95 |
| Yu Qi | Interest of corporation controlled by the substantial shareholder/Long position(1) | 1,487,381,647 | 61.95 |
| Mr. Li Liufa | Interest of corporation controlled by the director/Long position(1) | 1,487,381,647 | 61.95 |
| Ms. Li Fengluan | Interest of corporation controlled by the substantial shareholder/Long position(1) | 1,487,381,647 | 61.95 |

| Name | Capacity/Nature of interests | Total number of shares | Approximate percentage of shareholding (%) |
|---|---|---|---|
| The Export-Import Bank of China | Party with security interest over the shares/Long position | 515,000,000 | 21.45 |
| Ministry of Finance of the PRC | Party with security interest over the shares/Long position | 515,000,000 | 21.45 |
| Wan Qi Company Limited ("Wan Qi") | Beneficial owner/Long position(2) | 689,400,000 | 28.71 |
| | Short position | 345,215,420 | 14.38 |
| Mr. Tang Ming Chien | Interest of corporation controlled by the substantial shareholder/Long position(2) | 689,400,000 | 28.71 |
| | Short position | 345,215,420 | 14.38 |
| PA Investment Funds SPC — PA Greater China Industrial Opportunities Fund Segregated Portfolio | Beneficial owner/Long position | 237,600,000 | 9.90 |
| Central China International Financial Holdings Company Limited | Party with security interest over the shares/Long position | 174,603,175 | 7.27 |
| Central China International Investment Company Limited | Party with security interest over the shares/Long position | 174,603,175 | 7.27 |
| Central China Securities Company Limited | Party with security interest over the shares/Long position | 174,603,175 | 7.27 |
| Xiamen International Bank Company Limited, Zhuhai Branch | Party with security interest over the shares/Long position | 140,000,000 | 5.83 |
| Yue Xiu Asset Management Limited | Investment manager/Long position(3) | 123,000,000 | 5.12 |
| Yue Xiu Investment Fund Series Segregated Portfolio Company | Beneficial owner/Long position(3) | 123,000,000 | 5.12 |

(1) The entire issued share capital of Yu Kuo is legally and beneficially owned by Holy Eagle and Yu Qi, which are legally and beneficially owned by Mr. Li Liufa and Ms. Li Fengluan through Tianrui Group Company Limited and Tianrui (International) Holding Company Limited (see "CORPORATE STRUCTURE" of this annual report for details). Therefore, Mr. Li Liufa and Ms. Li Fengluan are deemed to be interested in the Shares held by Yu Kuo. On 26 May 2016, Yu Kuo has executed the relevant documentation to create a charge ("Share Charge") over 515,000,000 shares in the share capital of the Company in favour of The Export-Import Bank of China, a financial institution, as security for a loan advanced by the Lenders to Yu Kuo and/or its nominees. Pursuant to the announcement of the Company dated 25 November 2016, Yu Kuo has interests in 950,000,000 existing shares and 537,381,647 consideration shares. As of the date of this report, the interest on consideration shares is yet to be completed.

(2) The entire issued share capital of Wan Qi is legally and beneficially owned by Mr. Tang Ming Chien. Mr. Tang Ming Chien is deemed to be interested in the Shares held by Wan Qi by virtue of Wan Qi being controlled by Mr. Tang Ming Chien.

(3) Yue Xiu Asset Management Limited, being the investment manager of Yue Xiu Investment Fund Series Segregated Portfolio Company, is deemed to be interested in the Shares held by Yue Xiu Investment Fund Series Segregated Portfolio Company.

Saved as disclosed above, as at 31 December 2016, no other person has any interest or short position which shall be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE-BASED INCENTIVE SCHEMES

### Share Option Scheme

#### *Adoption and Validity Period*

The Company has adopted a share option scheme (the "Share Option Scheme") on 12 December 2011 (the "Adoption Date"). The Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary (i.e. 12 December 2021) of the Adoption Date (the "Scheme Period").

#### *Purpose of the Share Option Scheme*

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 our Company, thus linking their interests with the interests of our Group and thereby providing them with an incentive to work better for the interests of our Group.

#### *Maximum Options to be Granted*

As at the date of the 2016 Annual Report, the total number of Shares issued upon exercise of all Options granted under the Share Option Scheme must not in aggregate exceed 3% of the Shares of the Company (or its subsidiaries) as at the Listing Date (being 72,027,000 shares, representing 3% of the issued shares of the Company as at the date of the 2016 Annual Report).

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 30 percent of the shares in issue from time to time where there are options to be granted and yet to be exercised.

Unless approved by Shareholders in general meeting at which the relevant Eligible Person and his or her associates abstain from voting in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, the total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue (the "Individual Limit") at such time.

#### *Option Period*

The period within which the options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than ten years from the date the offer has been made to the grantees (the "Option Period"). All outstanding options shall lapse when the Option Period expires, the employment of the holder ceases or where the holder is no longer a member of the Group.

### *Eligible Person*

The Directors may at their absolute discretion grant Options to all Directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to our Company or our Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to our Company or our Group and each of the persons mentioned above is referred to as an "Eligible Person".

### *Acceptance of Options*

The Eligible Person may accept the offer within 21 days from the date of offer (or such other period as may be determined by the Board), provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the scheme has been terminated in accordance with its terms.

When the duplicate letter comprising acceptance of the Option is duly signed by the Eligible Person, it should be submitted together with the remittance of HK$1 in favor of our Company, as a consideration for the grant irrespective of the number of Shares in respect of which the Option is accepted.

### *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 (the "Subscription Price"), 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.

### Grant, Vesting, Cancellation and Lapse of Options During 2016

Since the Adoption Date and as of 31 December 2016, no option has been granted, vested or cancelled, or has lapsed under the Share Option Scheme.

## CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, save as disclosed below, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of the Listing Rules.

### (a) Purchase of Clinker and Sale of Limestone

(1) Reference is made to our circular dated 25 April 2014. Unless stated otherwise, capitalized terms used in this paragraph (a) shall have the same meaning as the said circular referred to above.

On 25 March 2014, China Tianrui Group Cement Company Limited ("Tianrui Cement"), a wholly owned subsidiary of the Company, and Pingdingshan Ruiping Shilong Cement Company Limited ("Ruiping Shilong"), a company in which Mr. Li Liufa ("Chairman Li") controls more than 30% of the voting power at its general meetings, entered into the Clinker Supply Framework Agreement and the Limestone Supply

Framework Agreement. The transactions under both the Clinker Supply Framework Agreement and the Limestone Supply Framework Agreement constitute continuing connected transactions under the Listing Rules.

As disclosed in the circular of the Company dated 25 April 2014 (the "Circular"), the principal terms of the Clinker Supply Framework Agreement entered into by Tianrui Cement (as purchaser) and Ruiping Shilong (as supplier) are: Tianrui Cement will purchase the clinker from Ruiping Shilong according to it own needs. The prices payable by Tianrui Cement for the clinker will be agreed following arm's length negotiations between relevant parties with reference to the prevailing market price of clinker in Pingdingshan, Henan province, with terms no less favorable than those available from independent third parties. For further details, please refer to the paragraph headed "1. Clinker Supply Framework Agreement" on page 8 of the Circular.

As disclosed in the Circular, the principal terms of the "Limestone Supply Framework Agreement" entered into by Ruiping Shilong (as purchaser) and Tianrui Cement (as supplier) are: Tianrui Cement will sell the limestone to Ruiping Shilong according to its own needs. The prices for the limestone will be agreed following arm's length negotiations between relevant parties with reference to the prevailing market price of limestone in Pingdingshan, Henan province, with terms no less favorable than those available from independent third parties. For further details, please refer to the paragraph headed "2. Limestone Supply Framework Agreement" on page 11 of the Circular.

The background and purpose for entering into the Clinker Supply Framework Agreement and the Limestone Supply Framework Agreement are: with the continuous development of the Group, it is expected that the demand for clinker, a major intermediate product of cement, will increase. In light of its proximity of the Group, it has been able to provide a stable supply of clinker with low transportation costs over the past years. As such, the Group intended to satisfy its clinker demand by entering into the Clinker Supply Framework Agreement with Ruiping Shilong. In addition, in view of the Group's ability to increase its limestone output and efficiency requirements, both parties intended to enter into the Limestone Supply Framework Agreement for mutual benefits as limestone demand from Ruiping Shilong increased, and Ruiping Shilong is located in the proximity of the Group.

Pursuant to the Clinker Supply Framework Agreement, the aggregate annual caps of the transactions under the agreement are RMB360,000,000, RMB480,000,000 and RMB480,000,000 for each of the three years ending 31 December 2014, 2015 and 2016 respectively. Pursuant to the Limestone Supply Framework Agreement, the annual caps of the transaction under the agreement is RMB60,000,000 for each of the three years ending 31 December 2016 respectively.

For the year ended 31 December 2016, Tianrui Cement purchased clinker from Ruiping Shilong with transaction value of RMB163,568,000.

For the year ended 31 December 2016, Tianrui Cement did not sell any limestone to Ruiping Shilong.

The Board hereby confirms that the auditors' letter relating to the above continuing connected transactions has been submitted to the Stock Exchange pursuant to Rules 14A.56 and 14A.57 of the Listing Rules.

(2) As the above agreement is going to expire and the Group still has the said demand for entering a new clinker supply framework agreement with Ruiping Shilong, on 30 December 2016, Tianrui Cement, an indirect wholly-owned subsidiary of the Company, and Ruiping Shilong entered a new clinker supply framework agreement. The annual cap will be RMB200,000,000. The term is from 1 January 2017 to 31 December 2019.

### (b) Mutual guarantees

Reference is made to our circular dated 30 October 2015. Unless stated otherwise, capitalized terms used in this paragraph (b) shall have the same meaning as the said circular referred to above.

On 24 September 2015, Tianrui Cement and Tianrui Group Company Limited ("Tianrui Group"), a company controlled by Chairman Li, entered into a framework agreement in relation to the provision of mutual guarantees (the "2015 Framework Agreement"), with a term from 27 November 2015 to 31 December 2017 ("Term"), upon the expiry of the previous term under the 2013 Framework Agreement. The transactions under the Framework Agreement constitute continuing connected transactions under the Listing Rules.

As disclosed in the circular of the Company dated 30 October 2015 (the "Circular of Mutual Guarantees"), according to the 2015 Framework Agreement entered into by Tianrui Cement and Tianrui Group: (a) Tianrui Group, an associate of Chairman Li, has agreed, during the Term, to provide guarantees, directly by itself or through its subsidiaries, for bank loans to be borrowed and/or debentures or corporate bonds to be issued by Tianrui Cement or its subsidiaries ("Tianrui Group Guarantee"); (b) meanwhile, Tianrui Cement has agreed, during the Term, to provide guarantees, directly by itself or through its subsidiaries, for bank loans to be borrowed and/or debentures or corporate bonds to be issued by Tianrui Group or its subsidiaries (excluding any of its subsidiaries engaged in aluminum-related business) ("Tianrui Cement Guarantee"). On the same date as the 2015 Framework Agreement, Chairman Li, the ultimate controlling shareholder of Tianrui Cement, entered into the Counter Guarantee Agreement with Tianrui Cement, pursuant to which Chairman Li has agreed to indemnify Tianrui Cement or its subsidiaries by means of the Counter Guarantee for any amount that it would have to pay in accordance with each Tianrui Cement Guarantee under the 2015 Framework Agreement ("Counter Guarantee"). For details on Tianrui Group Guarantee, Tianrui Cement Guarantee and Counter Guarantee, please refer to the paragraph headed "Major Terms of 2015 Framework Agreement and the Transactions Contemplated Thereunder" on page 6 of the Circular of Mutual Guarantees.

The background and purpose for entering into the 2015 Framework Agreement was that: (a) it is common commercial practice in China that the lenders require the provision of guarantees as security for granting loans to borrowers. In particular, for a privately-owned company like Tianrui Cement, the PRC banks oftentimes require the provision of the third-party guarantee for granting a loan; (b) since 2012, Chinese banks have further tightened lending requirements, particularly with respect to lending to those companies with rapid expansion and high leverage; (c) the Group's business is capital-intensive, with a need of financing; (d) with respect to the Tianrui Cement Guarantee, the risks involved in assisting the financing of Tianrui Group are manageable, which is reflected by the provision of indemnity by both Tianrui Group and Chairman Li for any amount payable by Tianrui Cement. For details on the purposes of and reasons for the above transactions, please refer to the paragraph headed "Reasons for and Benefits of the 2015 Framework Agreement" on page 11 of the Circular of Mutual Guarantees.

Pursuant to the 2015 Framework Agreement, the maximum daily balance of Tianrui Cement Guarantee is RMB2,500,000,000 for the period between 27 November 2015 and 31 December 2015, the year ending 31 December 2016 and the year ending 31 December 2017 respectively; while the maximum daily balance of Tianrui Group Guarantee is RMB6,000,000,000 for the period between 27 November 2015 and 31 December 2015, the year ending 31 December 2016 and the year ending 31 December 2017 respectively.

As of 31 December 2016, according to the 2015 Framework Agreement and as approved by a special committee, Tianrui Cement (including its subsidiaries) provided guarantees of RMB1,542,000,000 in aggregate to Tianrui Group (including its subsidiaries), while Tianrui Group (including its subsidiaries) provided guarantees of RMB5,070,000,000 in aggregate to Tianrui Cement (including its subsidiaries).

The Board hereby confirms that the auditors' letter relating to the above continuing connected transactions has been submitted to the Stock Exchange pursuant to Rules 14A.56 and 14A.57 of the Listing Rules.

## (c) Acquisition Agreement

Reference is made to our announcement dated 25 November 2016 in relation to the transaction details stated in this paragraph. Unless otherwise specified, capitalized terms used in this paragraph (d) shall have the same meanings as those used in the announcement referred to above.

On 25 November 2016 (after trading hours), the Company and Tianrui Group Company entered into the Acquisition Agreement, pursuant to which Tianrui Group Company conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares, which represent 100% equity interest of Yongan Cement and 55% equity interest in Xindeng Cement as at the Acquisition Completion, at the consideration of RMB919,000,000, to be settled by the allotment and issue of the Consideration Shares of 537,381,647 new Shares by the Company to Yu Kuo, a wholly-owned subsidiary of Tianrui Group Company, credited as fully paid, at the Issue Price of HK$1.92 per share upon Acquisition Completion. This acquisition agreement was approved at the extraordinary general meeting dated 19 January 2017. However, as of the date of this report, it has yet to be completed.

### *Annual Review by Independent Non-executive Directors and Auditor*

Pursuant to the Listing Rules, the above connected transaction and continuing connected transactions have been reviewed by the independent non-executive Directors of our Company, who confirmed that these continuing connected transactions and connected transactions referred to above were entered into:

(1) in the ordinary and usual course of business of the Group, and either on normal commercial terms or on terms no less favorable to us than terms available to or from independent third parties; or

(2) not in the normal and ordinary course of business of the Group, but on commercial terms more favorable to us; and

(3) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in them interests of the shareholders of our Company as a whole.

Pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the board of directors engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance

Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with Rule 14A.56 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

### Related parties transactions

During the year ended 31 December 2016, the Group also engaged in certain related party transactions as disclosed in Note 47 to the Consolidated Financial Statements of this Annual Report. The related party transactions comprise (1) the Group's purchase of clinker from and sale of limestone to Ruiping Shilong which have been approved by the independent shareholders of the Company as set out in the section headed "Connected Transaction and Continuing Connected Transactions — (a) Purchase of Clinker and Sale of Limestone" above; (2) the Group's rental of office from Tianrui Group Company at a consideration of RMB1,800,000 which is a connected transaction fully exempt under Rule 14A.76 of the Listing Rules; (3) provision of guarantees to Tianrui Group Company (and its subsidiaries) which have been approved by the independent shareholders of the Company as set out in the section headed "Connected Transaction and Continuing Connected Transactions — (b) Mutual Guarantees" above; and (4) remuneration to the directors and key management of the Company. Further, the derivative financial assets as set out in the note 25 to the financial statements represent the Options granted by Tianrui Group to the Company with respect to the competing business which has been acquired by Tianrui Group pursuant to the amended deed of non-competition ("Amended Non-competition Deed"), the details of which is set out in the circular of the Company dated 31 October 2014. The Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules during the year under review.

## MAJOR CUSTOMERS, SUPPLIERS AND EMPLOYEES

For the current financial year ended 31 December 2016, total sales to our five largest customers accounted for less than 30% of the Group's total sales. Total purchase from our five largest suppliers accounted for less than 30% of the Group's total purchase

Our major customers are real estate developers and concrete manufacturers etc, and major suppliers are raw material suppliers, equipment suppliers and other business partners. It's important to contact a good relationships with customers and suppliers, our group has took measures to strength communication with theirs in order to supply highly-quality productions and services, maintain good relationships in respect of the supply chain and business challenges respectively.

"Employees" are set out in the Management Discussion and Analysis section which forms part of the directors' report.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

During the period ended 31 December 2016, save as disclosed in the Corporate Governance Report of this Annual Report, all the code provisions set out in the Code contained in Appendix 14 to the Listing Rules were met by the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

Details of the Company's compliance with the Model Code for Securities Transactions are set out in the Corporate Governance Report of this Annual Report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognizes the importance of proper adoption of environmental policies is essential to the attainability of corporate growth. For further details, please refer to the section of "Company Profile — Committed to environment protection and sustainable development" of this annual report.

## COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2016 and up to the date of this report, the Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Company.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Board is of the view that the principal risk and uncertainty is the general global economy slowdown which might lead to the PRC market's lesser demand for cement and clinker.

## SIGNIFICANT EVENTS SINCE THE END OF FINANCIAL YEAR UNDER REVIEW

On 9 February 2017, Tianrui Group Company Limited enquired if the Company would exercise the option or, if not, agreed to reduce the shareholding in Tongli Cement. The Company decided not to exercise the option and agreed to reduce the shareholding in Tongli Cement. According to the proposition of Tianrui Group Company Limited, the profit from the reduction in shareholding will be vested to the Company. As of the date of this report, Tianrui Group Company Limited has reduced a total of 48,251,488 shares of Tongli Cement, and the remaining shares held by it would be 23,114,100 shares, representing 4.66% of the total share capital of Tongli Cement (the total amount of share capital after private placement on 22 February 2017).

## FUTURE PLAN

In light of the general global economy slowdown which might lead to the PRC market's lesser demand for cement and clinker, the Company will take a cautious approach with respect to production expansion and will put in more effort to improve operating efficiency.

## AUDITORS

The Consolidated Financial Statements have been audited by Deloitte Touche Tohmatsu ("Deloitte"), who will retire and, being eligible, offer themselves for re-appointment at the forthcoming general meeting.

A resolution to re-appoint Deloitte as our external auditor will be submitted for shareholders' approval at our forthcoming annual general meeting. The Company has engaged Deloitte as its auditor for the past six years.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

Our Company is committed to maintaining a high standard of corporate governance. The principle of our Company's corporate governance is to implement effective internal control measures and to increase the transparency of the Board and accountability to all shareholders.

For the period from 1 January 2016 to 31 December 2016, our Company had adopted the code provisions set out in Corporate Governance Code contained in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code to corporate governance practices. Except as stated in the reminders of this section, our Company had been in compliance with all code provisions set out in the Corporate Governance Code throughout the year ended 31 December 2016.

As the CEO of the Company resigned on 1 December 2015, and as at the date of this report, the Company has not yet appointed a new CEO. The Company will actively seek a new CEO. In the meantime, the Board of the Company established an Executive Committee, which was composed of 2 executive Directors and 3 top management members of the subsidiary of the Company. The Executive Committee is in charge of the daily operation of the major businesses of the Group, the Executive Committee members do not include the chairman of the Board, and this will ensure that the authority is not be vested in the same person.

## PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

As disclosed in the announcement of the Company dated 27 May 2016, on 27 May 2016, Yu Kuo Company Limited, the controlling shareholder had pledged 515,000,000 shares to the Export-Import Bank of China in order to secure a bank loan. The shares pledged represented approximately 21.45% of the issued share capital of the Company for the annual report.

## CHANGE OF THE DETAILS OF A DIRECTOR

According to Rule 13.51B of the Listing Rules, the change of the details of director is as follows:

Mr. Li Liufa, non-executive Director of the Company and chairman of the board of Directors, resigned as executive Director and chairman of the board of Directors of China Tianrui Group Cement Company Limited (stock code: 1252), effective as at 31 May 2016.

## COMPLIANCE WITH THE MODEL CODE BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry with the Directors, all of them have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2016.

## BOARD OF DIRECTORS

### Responsibilities of the Board

The Board is responsible for achieving the corporate goals, formulating the development strategy, regularly reviewing the organizational structure, and monitoring the business activities and management performance so as to protect and enhance the interests of the Company and its shareholders. Matters relating to the day-to-day operation of the Group are delegated to management. For the period from 1 January 2016 to 31 December 2016, the Board (among other things) considered and approved the annual budget, results of operations and the reconciliation between them, together with management work report and the annual results for the year ended 31 December 2016, monitored the operation of our Group's key business, and assessed our Group's internal control and financial matters.

### Composition of the Board

The Board currently comprises eight Directors, including two executive Directors, being Mr. Xu Wuxue and Mr. Li Jiangming; three non-executive Directors, being Mr. Li Liufa (the Chairman of the Board), Mr. Li Heping and Mr. Yang Yongzheng; and three independent non-executive Directors, being Mr. Wang Ping, Mr. Kong Xiangzhong and Mr. Du Xiaotang. Mr. Li Liufa is the Chairman of the Board of the Company. Mr. Li Heping ceased to be the chief executive officer of the Company on 1 December 2015 and the Company is looking for a suitable replacement candidate. Mr. Li Jiangming, the executive Director, is the younger brother of the spouse of Mr. Li Liufa, the Chairman of the Board. The profiles of the Directors are set out in the section headed "Profiles of Directors and Senior Management" in this Annual Report.

### Non-executive Directors

As at 31 December 2016, our Company has three non-executive Directors, being Mr. Li Liufa, Mr. Li Heping and Mr. Yang Yongzheng, with a term of three years commencing from 31 December 2014 (as for Mr. Li Liufa) and a term of one year commencing from 4 December 2016 (as for Mr. Li Heping) and from 3 December 2016 (as for Mr. Yang Yongzheng) respectively.

### Independent Non-executive Directors

The three independent non-executive directors of the Company are Mr. Wang Ping, Mr. Kong Xiangzhong and Mr. Du Xiaotang, with a term for a year with effect from 24 December 2016 for Mr. Wang Ping and Mr. Kong Xiangzhong and with effect from 11 June 2016 for Mr. Du Xiaotang.

### Appointment, re-election and removal of Directors

Our Company has established a nomination committee (the "Nomination Committee") with written terms of reference. The Nomination Committee is responsible for formulating the procedures for the appointment and removal of Directors. In selecting proposed Directors, the Nomination Committee considers the integrity, industry achievements and experience, expertise, educational background of candidates and whether they have sufficient time to perform their duties as Directors.

In accordance with Rule A.4 of Appendix 14 of the Hong Kong Listing Rules and article 84 and clause 3 of article 83 of the Articles of Association of our Company, at each annual general meeting one-third of Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Board may from time to time and at any time appoint any person to be a Director, either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment, and be subject to re-election at such meetings. Any Director appointed by the Board as an addition to the existing Board shall hold office until the next annual general meeting of the Company and shall be eligible for re-election.

In accordance with article 86 of the Articles of Association of our Company, the office of a Director shall be vacated if the Director: (1) resigns his office by notice in writing delivered to our Company at the Office or tendered at a meeting of the Board; (2) becomes of unsound mind or dies; (3) without special leave or absence from the Board, is absent from meetings of the Board for six consecutive months, and his alternate Director, if any, shall not during such period have attended in his stead and the Board resolves that his office be vacated; (4) becomes bankrupt or has a receiving order made against him or suspended payment or compounds with his creditors; (5) is prohibited by law from being a Director; or (6) ceases to be a Director by virtue of the Statutes or is removed from office pursuant to these Articles.

## BOARD MEETINGS

The Board conducts meetings on a regular or irregular basis to discuss the overall strategy and operational and financial performance of our Group. During the year ended 31 December 2016, the Board held four meetings (excluding the one Board meeting held by way of circulation of a written resolution) as required by the operation and development of the Group. The attendance record of each Director is as follows:

| Name of Directors | Attendance/Number of meetings held |
|---|---|
| **Executive Directors** | |
| Mr. Xu Wuxue | 4/4 |
| Mr. Li Jiangming | 3/4 |
| **Non-executive Directors** | |
| Mr. Li Liufa | 2/4 |
| Mr. Li Heping | 4/4 |
| Mr. Yang Yongzheng | 3/4 |
| **Independent Non-executive Directors** | |
| Mr. Kong Xiangzhong | 4/4 |
| Mr. Wang Ping | 4/4 |
| Mr. Du Xiaotang | 4/4 |

As noted above, Mr. Li Jiangming was absent from one Board meeting because he had a material interest in the resolutions being considered at that Board meeting and abstained from voting; Mr. Li Liufa was absent from two Board meetings because he had a material interest in the resolutions being considered at one of the Board meetings and abstained from voting; Mr. Yang Yongzheng was absent from one Board meeting.

Our Company gives notices of Board meetings of a reasonable period, and the procedures for the Board meetings are in compliance with the Articles of Association of our Company and relevant rules and regulations. Meeting agendas and relevant documents are circulated to all Directors (for some Board meetings in respect which notices and information were not provided to the Board in a timely basis, attention has been brought to each of Directors and waiver from compliance has been obtained) in a timely manner. In order to ensure the compliance with the procedures for the Board meetings and all applicable rules and regulations, all Directors have full and timely access to all relevant information and may request the opinions and services of our joint company secretaries. Upon making a request to the Board, all Directors may seek independent professional opinions to discharge their duties at the expense of our Company.

The joint company secretaries shall keep minutes of Board meetings which shall be available for inspection by Directors and the auditors of our Company.

Our Company held a meeting attended by the chairman of the Board and non-executive Directors (including independent non-executive Directors) during the period in compliance with requirements under Rule A.2.7 of Appendix 14 of the Listing Rules to discuss and consider duties and roles of the Board and its relevant members as well as their performance during the reporting period.

## GENERAL MEETING

Our Company held two general meetings, being the annual general meeting and the extraordinary general meeting, for the period from 1 January 2016 to 31 December 2016. The attendance record of Directors is as follows:

| List of Directors | Attendance/Number of meetings held |
|---|---|
| **Executive Directors** | |
| Mr. Xu Wuxue | 2/2 |
| Mr. Li Jiangming | 2/2 |
| **Non-executive Directors** | |
| Mr. Li Liufa | 1/2 |
| Mr. Li Heping | 1/2 |
| Mr. Yang Yongzheng | 2/2 |
| **Independent Non-executive Directors** | |
| Mr. Kong Xiangzhong | 2/2 |
| Mr. Wang Ping | 2/2 |
| Mr. Du Xiaotang | 2/2 |

As noted above: Mr. Li Heping was absent from one general meeting. As Yu Kuo Company Limited, which held a total of 39.57% shares of our Company and was ultimately owned by Chairman Li, was a connected person of our Company and had material interests in the resolution to be passed at the extraordinary general meeting, Chairman Li and parties acting in concert with him holding 39.57% shares of our Company abstained from voting and Chairman Li only attended one general meeting.

## CORPORATE GOVERNANCE FUNCTIONS

The corporate governance functions performed by the Board of Directors include the following:

(a) Formulate and review the corporate governance policy and practice of the Company;

(b) Review and monitor the training and continuous professional development of Directors and the senior management;

(c) Review and monitor the policy and practice of the Company in compliance with laws and regulatory requirements;

(d) Review the compliance with the Code of Corporate Governance by the Company and the disclosure in the Corporate Governance Report.

## BOARD DIVERSITY POLICY

The Board adopt the following board diversity policy:

In order to achieve a sustainable and balanced development, the Company has realized it is very important to enhance diversity of the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All the appointments made by the Board will be based on meritocracy, with the benefit to the Board made by the board diversity policy. Selection of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the specific demand for talents of the various stages in our business development and strategic planning.

The composition of the Board (including gender, age, educational background, and professional experience) has been disclosed in the "Profiles of Directors and Senior Management".

## TRAINING FOR DIRECTORS

The Company is obliged to make arrangements for training courses (including the provision of information relating to the Group) in relation to the roles, functions and responsibilities of the Directors and provide the relevant expenditure so that the Directors are able to update or supplement their knowledge to ensure their continuous contribution to the Board of Directors.

For the year ended 31 December 2016, the Directors had respectively accepted and learnt the directors' responsibilities, rights and obligations amended and prepared by the secretariat of our Company based on the Listing Rules. They were also provided with information about the Group's structure, business and operations by the joint company secretaries upon commencement of office to enhance their understanding on the Group. In addition, by participated the 40th seminar for the enhancement of continuing professional development of associates on 26 April 2016 (where Mr. Li Jiangming as joint company secretary had attended this training), our Company provided materials prepared from the information mentioned in such seminar to some Directors and senior management (where the Directors included Mr. Li Liufa, Mr. Yang Yongzheng, Mr. Xu Wuxue and Mr. Li Heping), and Mr. Wang Ping. Mr. Du Xiaotang and Mr. Kong Xiangzhong also participated in trainings for senior management of listed companies held by the Shenzhen Stock Exchange, and Mr. Wang Ping attended a comprehensive training for being a director of company proposed to be listed.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control system and has approved the effectiveness of the audit committee's annual review over the risk management and internal control system of the Company and its subsidiaries, including the effectiveness of financial control, operation control and compliance control, and has confirmed that it is sufficient and effective. The purpose of establishment and effective operation of such systems is to manage but not eliminate the risk of failing to achieve business objectives, and to make reasonable but not absolute assurance for no material misstatement or loss.

The Group establishes a three-level management system to identify, collect, assess, respond, evaluate and improve risk management and internal control. The three-level management system includes all relevant functional departments and business unites established internally by all branch companies and subsidiaries, in order to establish risk management group with managers as persons-in-charge; establishes risk management office with the Company management and its corporate functional departments and supervisory units thereunder, with general managers of companies as persons-in-charge; supervises management duties by the Board of the Company and the audit committee under the Board. Audit institution is the executive department for performing specific supervisory management, where the risk management group will issue risk management manual as guidelines for ordinary identification, collection and report to the risk management office. Legal institution is the advisory institution for the risk management office, it will advise on the preparation of risk management related system and material risk management practice, as well as the establishment of risk management organization and institution. The risk management office is a standing risk management institution to report to the audit committee and the Board. The audit institution is an ordinary supervisory institution and provide improvement advice to the risk management office, and, if necessary, report to the audit committee.

In relation to the process and control for the identification, collection, assessment, processing and release of inside information, the Board Office establishes the "Guidelines for Inside Information Management of China Tianrui Group Cement Company Limited" 《中國天瑞集團水泥有限公司內幕資訊管理制度》. The Board Office is a standing institution for information disclosure. Officers from all departments and all branch companies and subsidiaries are the first persons-in-charge and designated contact persons for information reporting and report to the Board Office. The Board Office will make assessment on the information collected and report to the secretary of the Board and the Board, if necessary, and proceed with the processing and release, if necessary, in accordance with the instructions.

## BOARD COMMITTEES

There is an audit committee, a nomination committee and a remuneration committee under the Board (collectively referred to as the "Board Committees"). The Board Committees have been provided with sufficient resources to discharge their duties, and may, upon reasonable request, seek independent professional opinions at the expense of our Company under appropriate circumstances.

## Audit Committee

The responsibilities of the Audit Committee are to assist the Board in performing its fiduciary duties relating to accounting, auditing, financial reporting, risk management and internal control of the Company and its subsidiaries (the "Group") and the Group's compliance with the relevant laws and regulations, including, but not limited to, to assist the Board in supervising (a) the completeness of the financial report of the Company; (b) the Company's compliance with the requirements of laws and regulations; (c) the qualifications and independence of the independent auditor of the Company and its performance of duties; (d) the performance of duties of the internal audit department of the Company; and (e) the design, implementation and supervision of the Company's risk management and internal control system.

The Audit Committee currently comprises three members, being independent non-executive Directors Mr. Wang Ping, Mr. Kong Xiangzhong and Mr. Du Xiaotang. Mr. Wang Ping is the chairman of the Audit Committee.

For the period from 1 January 2016 to 31 December 2016, the Company held a total of two Audit Committee meetings, at which it mainly reviewed and approved the annual audit report for 2015 and the interim review report for 2016 issued by Deloitte. Mr. Wang Ping, Mr. Kong Xiangzhong and Mr. Du Xiaotang attended those two meetings.

On 26 March 2017, the Audit Committee and the management of our Company discussed and reviewed the audited consolidated financial information of the Group for the year ended 31 December 2016.

## Nomination Committee

The responsibilities of the Nomination Committee are to assess the independence of the independent non-executive Directors, review the effectiveness of the Board diversification policy and its execution, assist the Board in dealing with the nomination of members and composition of the Board and to make recommendations on appointment and removal of Directors to the Board. The Nomination Committee comprises three members, being independent non-executive Directors Mr. Kong Xiangzhong, Mr. Wang Ping and non-executive Director Mr. Yang Yongzheng. Mr. Kong Xiangzhong is the chairman of the Nomination Committee.

For the period from 1 January 2016 to 31 December 2016, the Company held a total of one Nomination Committee meeting, at which it mainly reviewed the structure, number of members and composition (including skills, knowledge and experience) of the Board, assessed the independence of the independent non-executive Directors and discussed the retirement by rotation and re-election of each Director. Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Yang Yongzheng attended such meeting.

## Remuneration Committee

The responsibilities of the Remuneration Committee are to make recommendations to the Board as to the overall remuneration policy and structure of all Directors and senior management of the Group, to review individual performance-based remuneration and to ensure no Director participates in the determination of his own remuneration. The Remuneration Committee has adopted the practice under the code provision B.1.2(c)(i) to recommend the remuneration packages of selected executive Directors and senior management to the Board. The Remuneration Committee comprises three members, being independent non-executive Directors Mr. Du Xiaotang, Mr. Kong Xiangzhong and executive Director Mr. Xu Wuxue. Mr. Du Xiaotang is the chairman of the Remuneration Committee.

For the period from 1 January 2016 to 31 December 2016, the Company held a total of one Remuneration Committee meeting, at which it mainly discussed and approved the overall remuneration policy and structure of all Directors and senior management of the Group and reviewed the remuneration payments of Directors and senior management for 2015. Mr. Du Xiaotang, Mr. Kong Xiangzhong and Mr. Xu Wuxue attended such meeting.

## REMUNERATION OF SENIOR MANAGEMENT

The remuneration policy of the senior management has been recommended, reviewed and approved by our Remuneration Committee. The remuneration of the senior management whose names appear in the section headed "Profiles of Directors and Senior Management" in this Annual Report for the year ended 31 December 2016 was classified into one band: remuneration was below HK$1,000,000.

## INDEPENDENT AUDITOR'S APPOINTMENT AND COMPENSATION

The independent auditor of our Company is Deloitte Touche Tohmatsu. For the year ended 31 December 2016, the compensation payable for the statutory audit and non-audit services provided by Deloitte Touche Tohmatsu is as follows:

| Services provided by auditors | Compensation (RMB million) |
|---|---|
| Audit of annual report | 3 |
| Non-audit services | 0.5 |
| Total | 3.5 |

The charges paid for non-audit services set at RMB0.5 million. It is the charges provided for performing agreed procedure on specific financial information to the Company at the request of the Audit Committee.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the independent auditors, which is subject to the approval by the Board and its shareholders at general meetings of the Company.

The Audit Committee will take into account certain factors including the audit performance, quality and objectivity and independence of the auditors, when assessing the auditors.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors of our Company have confirmed that it is responsible for making balanced, clear and understandable assessment of the consolidated financial statements set out in the annual and interim results. In preparing the financial report for the year ended 31 December 2016, the Directors have selected and applied consistently appropriate accounting policies, have adopted appropriate international financial reporting standards and have made prudent and reasonable judgment and estimates, and have prepared the financial statements on a going concern basis. The statement of the independent auditors of our Company regarding the presentation obligations for and opinions on the financial statements for the year ended 31 December 2016, are set out in the section headed the "Independent Auditors' Report" in this Annual Report.

## JOINT COMPANY SECRETARIES

Ms. Kwong Yin Ping Yvonne is a joint company secretary of the Company. Ms. Kwong is the vice president of a corporate service provider in Hong Kong. Mr. Yu Chunliang and Mr. Li Jiangming are the main contact persons for Ms. Kwong in respect of any matters regarding her position as a joint company secretary of the Company. For the details of Mr. Yu Chunliang and Mr. Li Jiangming, please see the section headed "Profiles of Directors and Senior Management".

For the year ended 31 December 2016, Ms. Kwong, Mr. Yu and Mr. Li had respectively attended 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

The general meetings of our Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of our Company shall be held in each year. Each general meeting, other than an annual general meeting is referred to as an extraordinary general meeting ("EGM").

According to article 58 of the Articles of Association of our Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of our Company carrying the right of voting at general meetings of our Company shall at all times have the right, by written requisition to the Board or the secretary of our Company, 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 our Company.

According to article 85 of the Articles of Association of our Company, no person other than a Director at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head officer 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 notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The written notice must include the candidate's biographical details as required by rule 13.51(2) of the Listing Rules. The procedures for a shareholder to propose a candidate for election as a Director have been published on the Company's website.

Shareholders may also at any time make enquires to the Board. All enquiries shall be in writing and send by post to the principal place of business in Hong Kong of our Company or by e-mail to ycl6906@sina.com or liht@tianruigroup.cn for the attention of the joint company secretaries.

## INVESTOR RELATIONS

There were no material changes to the Articles of Association of our Company for the period from 1 January 2016 to 31 December 2016. Our Company has been acting in good faith, strictly following and implementing the Listing Rules, timely disclosing true, accurate and complete information that needs to be disclosed, and also timely disclosing information that might materially affect the decision-making of shareholders and other interested parties.

Our senior management is committed to maintaining communication channels with investors to provide them with thorough understanding of our Company and its business and strategies. In this regard, our Company has specially designated a director of investor relations, and has established and maintained proper communication channels for proper communication with investors and information disclosure.

# Independent Auditor's Report

Deloitte. 德勤

**To the Members of China Tianrui Group Cement Company Limited**
*(incorporated in Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Tianrui Group Cement Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 135, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 International Financial Reporting Standards ("IFRSs") 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 Hong Kong Institute of Certified Public Accountants ("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 judgment, 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 matter | How our audit addressed the key audit matter |
|---|---|
| *Fair value of derivative financial instruments* | |
| We identified the fair value of derivative financial instruments as a key audit matter due to the significance of the balance on the consolidated statement of financial position as at 31 December 2016 and the significant degree of estimates made by management in determining the fair value.<br><br>The Group reported derivative financial instruments of RMB761,065,000 as at 31 December 2016. The derivative financial instruments are required to be measured at fair value at the end of each reporting period.<br><br>Details of the estimation uncertainties and the fair value determination of derivative financial instruments are discussed in Note 5 and Note 49.3, respectively, to the consolidated financial statements. | Our procedures in relation to the fair value of derivative financial instruments included:<br><br>• Testing the key internal controls over the fair value determination of derivative financial instruments;<br><br>• Evaluating the external valuer's objectivity, qualifications and competence; and<br><br>• Utilising our internal valuation specialists to assess the valuation methodologies and key inputs. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Goodwill impairment assessment* | |
| We identified the goodwill impairment assessment as a key audit matter due to the significance of the balance on the consolidated statement of financial position as at 31 December 2016 and the significant degree of estimates made by the management in determining the recoverable amount.<br><br>The Group reported goodwill of RMB275,489,000 as at 31 December 2016.<br><br>Management's impairment assessment on goodwill is based on the value in use of the relevant cash generating units to which goodwill has been allocated primarily based on the cash flow projections and an appropriate discount rate as disclosed in Note 5 and Note 21. | Our procedures in relation to goodwill impairment included:<br><br>• Testing the key internal controls over goodwill impairment assessment;<br><br>• Evaluating the valuation methodologies and the key assumption of the discount rate, with the assistance of our internal valuation specialists; and<br><br>• Assessing the reasonableness of the cash flow projections by comparing cement price to industry forecasts and comparing the sales volume and gross profit ratio to historical performance. |
| *Impairment of property, plant and equipment* | |
| We identified the impairment of property, plant and equipment as a key audit matter due to the significance of the balance on the consolidated statement of financial position as at 31 December 2016 and the significant degree of estimates made by management in determining the recoverable amount.<br><br>The Group reported property, plant and equipment of RMB11,903,679,000 as at 31 December 2016.<br><br>Management's impairment assessment on property, plant and equipment requires an estimation of the recoverable amount of an individual asset or the cash generating units to which the assets belongs. Management's estimation of value in use is primarily based on the cash flow projections and an appropriate discount rate as disclosed in Note 5 and Note 17. | Our procedures in relation to impairment of property, plant and equipment included:<br><br>• Testing the key internal controls over impairment of property, plant and equipment;<br><br>• Evaluating the valuation methodologies and the key assumption of the discount rate, with the assistance of our internal valuation specialists; and<br><br>• Assessing the reasonableness of the cash flow projections by comparing cement price to industry forecasts and comparing the sales volume and gross profit ratio to historical performance. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 judgment and maintain professional skepticism throughout the audit. We also:

- 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 those charged with governance 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 those charged with governance 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.

From the matters communicated with those charged with governance, 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.

The engagement partner on the audit resulting in the independent auditor's report is Tung Wai Lung Ricky.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
26 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Revenue | 6, 7 | **6,008,605** | 6,195,093 |
| Cost of sales | | **(4,491,801)** | (4,947,939) |
| Gross profit | | **1,516,804** | 1,247,154 |
| Other income | 8 | **474,509** | 491,507 |
| Other gains and losses | 9 | **(52,096)** | (44,468) |
| Share of profit of an associate | | **4,252** | 271 |
| Gain on fair value change of derivative financial assets | 25 | **82,256** | 449,569 |
| Distribution and selling expenses | | **(314,125)** | (334,315) |
| Administrative expenses | | **(363,439)** | (374,468) |
| Other expenses | | **(68,717)** | (92,042) |
| Finance costs | 10 | **(927,809)** | (1,030,682) |
| Profit before tax | | **351,635** | 312,526 |
| Income tax expenses | 11 | **(102,065)** | (29,021) |
| Profit and total comprehensive income for the year | 12 | **249,570** | 283,505 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **295,812** | 313,079 |
| Non-controlling interests | | **(46,242)** | (29,574) |
| | | **249,570** | 283,505 |

| | Notes | 2016 RMB | 2015 RMB |
|---|---|---|---|
| Earnings per share | | | |
| Basic | 14 | **0.12** | 0.13 |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 17 | **11,903,679** | 12,491,514 |
| Deposits and advances | 18 | **2,204,893** | 2,431,208 |
| Prepaid lease payments | 19 | **801,942** | 811,594 |
| Mining rights | 20 | **249,902** | 255,406 |
| Goodwill | 21 | **275,489** | 272,311 |
| Other intangible assets | 22 | **5,798** | 6,607 |
| Interests in associates | 23 | **109,523** | 105,271 |
| Derivative financial assets | 25 | **761,065** | 678,809 |
| Deferred tax assets | 39 | **154,002** | 115,924 |
| | | **16,466,293** | 17,168,644 |
| CURRENT ASSETS | | | |
| Inventories | 24 | **750,671** | 832,241 |
| Trade and other receivables | 26 | **2,742,283** | 3,170,116 |
| Amount due from an associate | 28 | **323,774** | 508,064 |
| Pledged bank balances | 29 | **3,107,202** | 4,689,266 |
| Cash and bank balances | 30 | **726,178** | 722,311 |
| | | **7,650,108** | 9,921,998 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 31 | **3,584,279** | 4,112,868 |
| Short term debentures | 32 | **—** | 3,792,019 |
| Mid-term debentures — due within one year | 36 | **2,275,183** | 1,300,000 |
| Borrowings — due within one year | 33 | **5,921,033** | 4,334,423 |
| Obligations under finance leases | 34 | **28,861** | 55,358 |
| Tax liabilities | | **273,362** | 179,472 |
| Financial guarantee contracts | 35 | **26,875** | 10,637 |
| | | **12,109,593** | 13,784,777 |
| NET CURRENT LIABILITIES | | **(4,459,485)** | (3,862,779) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **12,006,808** | 13,305,865 |

# Consolidated Statement of Financial Position

At 31 December 2016

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| CAPITAL AND RESERVES | | | |
| Share capital | 42 | **19,505** | 19,505 |
| Share premium and reserves | | **7,738,867** | 7,450,778 |
| Equity attributable to owners of the Company | | **7,758,372** | 7,470,283 |
| Non-controlling interests | 52 | **(118,682)** | (52,222) |
| TOTAL EQUITY | | **7,639,690** | 7,418,061 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings — due after one year | 33 | **528,684** | 155,000 |
| Mid-term debentures | 36 | **500,000** | 2,384,171 |
| Long-term corporate bonds | 37 | **3,075,350** | 3,057,635 |
| Other payables | 38 | **—** | 8,400 |
| Deferred tax liabilities | 39 | **66,527** | 56,054 |
| Deferred income | 40 | **174,717** | 177,483 |
| Obligations under finance leases | 34 | **—** | 28,887 |
| Provision for environmental restoration | 41 | **21,840** | 20,174 |
| | | **4,367,118** | 5,887,804 |
| | | **12,006,808** | 13,305,865 |

The consolidated financial statements on pages 49 to 135 were approved and authorised for issue by the board of directors on 26 March 2017 and are signed on its behalf by:

**Xu Wuxue**
*DIRECTOR*

**Li Jiangming**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share Capital RMB'000 *(Note 42)* | Share premium RMB'000 | Capital reserve RMB'000 *(note i)* | Statutory reserve fund RMB'000 *(note ii)* | Other reserves RMB'000 *(note iii)* | Revaluation reserve RMB'000 *(note iv)* | Retained earnings RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2015 | 19,505 | 1,275,536 | 789,990 | 472,367 | 823,549 | 31,768 | 4,023,245 | 7,435,960 | (22,648) | 7,413,312 |
| Profit (loss) and total comprehensive income (expense) for the year | — | — | — | — | — | — | 313,079 | 313,079 | (29,574) | 283,505 |
| Transfers *(note v)* | — | (1,270,896) | — | 17,992 | — | — | 1,252,904 | — | — | — |
| Dividend distribution | — | — | — | — | — | — | (504,189) | (504,189) | — | (504,189) |
| Financial guarantee provided to related parties *(Note 35)* | — | — | — | — | (3,807) | — | — | (3,807) | — | (3,807) |
| Options granted by the shareholder *(Note 25)* | — | — | — | — | 229,240 | — | — | 229,240 | — | 229,240 |
| At 31 December 2015 | **19,505** | **4,640** | **789,990** | **490,359** | **1,048,982** | **31,768** | **5,085,039** | **7,470,283** | **(52,222)** | **7,418,061** |
| Profit (loss) and total comprehensive income (expense) for the year | **—** | **—** | **—** | **—** | **—** | **—** | **295,812** | **295,812** | **(46,242)** | **249,570** |
| Transfers | **—** | **—** | **—** | **32,857** | **—** | **—** | **(32,857)** | **—** | **—** | **—** |
| Financial guarantee provided to related parties *(Note 35)* | **—** | **—** | **—** | **—** | **(22,541)** | **—** | **—** | **(22,541)** | **—** | **(22,541)** |
| Purchase of non-controlling interests *(note iii)* | **—** | **—** | **—** | **—** | **13,475** | **—** | **1,343** | **14,818** | **(20,218)** | **(5,400)** |
| At 31 December 2016 | **19,505** | **4,640** | **789,990** | **523,216** | **1,039,916** | **31,768** | **5,349,337** | **7,758,372** | **(118,682)** | **7,639,690** |

*Note:*

i Capital reserve represents the excess of capital injection over the registered capital of Tianrui Group Cement Company Limited ("Tianrui Cement").

ii According to the relevant requirements in the memorandum of the People's Republic of China (the "PRC") subsidiaries, a portion of their profits after taxation is transferred to statutory reserve fund. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.

iii Other reserves mainly comprise: (1) China Tianrui Group Cement Company Limited (the "Company") was incorporated on 7 February 2011 and became the ultimate holding company of Zhong Yuan Cement Company Limited and China Tianrui (Hong Kong) Company Limited and Tianrui Cement and its subsidiaries (collectively referred to as the "Group") on 8 April 2011. On 2 April 2011, 474,526 shares as nil paid was allotted and issued to Yu Kuo Company Limited. As part of reorganization, Yu Kuo Company Limited applied a bridging loan in the net amount of USD87,433,333 to pay up 474,526 shares. The amount of USD87,433,333 (equal to approximately RMB565,516,000) in excess of the par value of 474,526 shares was recognised in share premium and the resulting difference between the paid-in capital of Tianrui Cement amounting to RMB1,397,135,000 after deducting the nominal value of shares issued to Yu Kuo Company Limited and the share premium amounting to RMB831,615,000 was recognized in other reserve upon the completion of the corporate reorganization; (2) the fair value of financial guarantee contracts at initial recognition provided to subsidiaries of Tianrui Group Company Limited (" Tianrui Group") as detailed in Note 35 which was considered as deemed distribution to Tianrui Group; (3) the fair value of options at initial recognition granted by Tianrui Group as detailed in Note 25 which was considered as deemed contribution from Tianrui Group. (4) the difference between the carrying amounts of the non-controlling interest amounting to RMB20,218,000 and consideration amounting to RMB5,400,000 paid to the non-controlling shareholder during the year 2016.

For the year ended 31 December 2016

*Note: (continued)*

iv The revaluation reserve represents the revaluation surplus of previously held interests in associates of Tianrui Cement recognised directly in equity when Tianrui Cement acquired additional interests in those entities and obtained control.

v Share premium of the Company about RMB1,270,896,000 was transferred to retained earnings during the year ended 31 December 2015 based on the approval of the Company's board of directors.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cash flows from operating activities: | | |
| Profit before tax | **351,635** | 312,526 |
| Adjustments for: | | |
| Release of deferred income | **(9,553)** | (8,171) |
| Interest on bank deposits | **(119,106)** | (132,758) |
| Share of profit of an associate | **(4,252)** | (271) |
| Gain on fair value change of derivative financial assets | **(82,256)** | (449,569) |
| Depreciation of property, plant and equipment | **811,769** | 753,541 |
| Finance costs recognised in profit or loss | **927,809** | 1,030,682 |
| Foreign exchange loss | **52,422** | 46,030 |
| Release of financial guarantee liability | **(6,303)** | (2,490) |
| Release of prepaid lease payments | **22,302** | 18,803 |
| (Reversal of) allowances for bad and doubtful debts, net | **(1,959)** | 1,519 |
| Amortisation of mining rights | **17,585** | 14,501 |
| Amortisation of other intangible assets | **809** | 752 |
| Loss (gain) on disposal of property, plant and equipment | **1,633** | (3,081) |
| Write-down of inventories | **—** | 2,932 |
| Provision for environmental restoration | **1,666** | 2,075 |
| Operating cash flows before movements in working capital | **1,964,201** | 1,587,021 |
| Movements in working capital | | |
| Decrease in inventories | **89,312** | 495,855 |
| Decrease (increase) in trade and other receivables | **467,299** | (1,014,717) |
| Decrease (increase) in amount due from an associate | **184,290** | (49,429) |
| Decrease in trade and other payables | **(425,470)** | (796,758) |
| Increase (decrease) in discounted bills with recourse | **83,197** | (34,126) |
| Cash generated from operations | **2,362,829** | 187,846 |
| Income tax paid | **(37,261)** | (71,782) |
| Net cash from operating activities | **2,325,568** | 116,064 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Notes | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Interest received | | **90,490** | 81,750 |
| Capital injection for investment in an associate | | **—** | (105,000) |
| Acquisition of a subsidiary (net) | 50 | **5,332** | (8,000) |
| Purchase of property, plant and equipment | | **(58,507)** | (389,507) |
| Addition of prepaid lease payments | | **(5,851)** | (5,959) |
| Acquisition of mining rights | | **(12,081)** | (2,579) |
| Proceeds from disposal of property, plant and equipment | | **1,023** | 5,110 |
| Deposits paid for acquisition of businesses | | **—** | (438,200) |
| Deposits refunded from acquisition of businesses | | **147,144** | 618,216 |
| Government grants for prepaid lease payments | | **6,787** | 4,800 |
| Withdrawal of pledged bank deposits | | **7,204,726** | 7,192,425 |
| Placement of pledged bank deposits | | **(5,622,662)** | (8,913,096) |
| Net cash from (used in) investing activities | | **1,756,401** | (1,960,040) |
| Cash flows from financing activities | | | |
| Interest paid | | **(1,130,143)** | (950,242) |
| Dividends paid | | **—** | (504,189) |
| Repayment of borrowings | | **(5,218,314)** | (6,103,678) |
| New borrowings raised | | **7,047,895** | 5,511,839 |
| Repayment of finance lease obligations | | **(59,006)** | (59,816) |
| Issuance of short-term debentures | | **—** | 3,795,573 |
| Issuance of mid-term debentures | | **1,955,183** | 2,136,176 |
| Issuance of long-term corporate bonds | | **6,283** | 1,026,322 |
| Repayment of short-term debentures | | **(3,800,000)** | (2,300,000) |
| Repayment of mid-term debentures | | **(2,880,000)** | (944,600) |
| Installment payment on acquisition of mining rights | | **—** | (14,400) |
| Net cash (used in) from financing activities | | **(4,078,102)** | 1,592,985 |
| Net increase (decrease) in cash and cash equivalents | | **3,867** | (250,991) |
| Cash and cash equivalents at beginning of year | | **722,311** | 973,302 |
| Cash and cash equivalents at end of the year represented by cash and bank balances | | **726,178** | 722,311 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. GENERAL INFORMATION

China Tianrui Group Cement Company Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 February 2011. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 23 December 2011. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located at No. 63, Guangcheng East Road, Ruzhou City, Henan 467500, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of cement and clinker (See Note 52). Tianrui Group Company Limited (" Tianrui Group"), controlled by Mr. Li Liufa, a non-executive director of the Company, indirectly held 39.57% of shares of the Company as at 31 December 2016 and 2015.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB4,459,485,000. The Group's current liabilities mainly included trade and other payables, borrowings and debentures.

In view of these circumstances, the directors of the Company (the "Directors") have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

The consolidated financial statements have been prepared on a going concern basis. In the opinion of the Directors, the Group should be able to continue as a going concern in the coming twelve months taking into consideration of various measures to improve its financial position which include, but are not limited to, the following:

(i) Unused banking facilities of RMB1,546,400,000 in aggregate are available which have been obtained before 31 December 2016, which comprised of:

(a) a banking facility of RMB710,000,000 from the Agriculture Bank of China which is available until 30 April 2017;

(b) a banking facility of RMB57,400,000 from the Bank of China which is available until 21 December 2017;

(c) a banking facility of RMB491,500,000 from the Construction Bank of China which is available until 5 August 2018;

(d) a banking facility of RMB200,000,000 from the Ping An Bank Company Limited which is available until 28 July 2017;

(e) a banking facility of RMB87,500,000 from the Industrial & Commercial Bank of China Company Limited which is available until 30 September 2017.

(ii) On 1 June 2015, the Company obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue short-term debenture up to a maximum outstanding amount of RMB2,000,000,000 at any point in two years effective period through the lead underwriter, China Bohai Bank Company Limited.

During the effective period, the Directors are of the view that the Group is able to identify investors and issue new debentures shortly.

(iii) On 9 November 2015, the Company obtained approval from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) to issue short-term debenture up to a maximum outstanding amount of RMB1,000,000,000 at any point in two years effective period through the lead underwriter, Bank of Nanjing Company Limited.

During the effective period, the Directors are of the view that the Group is able to identify investors and issue new debentures shortly.

Taking into account of the aforesaid presently available banking facilities, debentures and internally generated funds of the Group, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future and therefore the consolidated financial statements are prepared on a going concern basis.

## 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied, for the first time, following amendments to IFRSs that are mandatorily effective in the current year:

| | |
|---|---|
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IAS 16 and IAS 41 | Agriculture: Bearer Plants |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012–2014 Cycle |

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new, revised and interpretation to IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| IFRS 16 | Leases[2] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 7 | Disclosure Initiative[4] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses[4] |
| Amendments to IAS 40 | Transfers of Investment Property[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014–2016 Cycle[5] |

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

## 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

### IFRS 9 Financial Instruments

IFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

## 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

### IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 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 or services. Specifically, the Standard introduces 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 the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The main revenue of the Group are sales of cement and clinker. The performance obligations in the contract are unique and transaction price is specific.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

## 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

### IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets. For sale and leaseback transactions, IFRS 16 requires assessment whether the transfer of an asset constitutes a sale be based on IFRS 15 Revenue from Contracts with Customers.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest expense and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is an operating lease lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB25,839,000 as disclosed in Note 45. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the sale and leaseback transactions entered into by the Group as disclosed in Note 34 do not satisfy the requirements of IFRS 15 as sales of assets and hence will be considered as collateralised borrowings under IFRS 16, whilst IFRS 16 does not require reassessment of sale and leaseback transactions entered into before the date of initial application, the application of IFRS 16 may affect sales and leaseback transactions entered into by the Group subsequent to initial application. The application of new requirements may result other changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

## 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

### Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The Directors anticipate that the application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Other than disclosed above, the Directors do not anticipate that the application of other new, revised and interpretation to IFRSs will have a material impact on amounts reported in the Group's consolidated financial statements and/or disclosures set out in these consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at both initial recognition and subsequently at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

The principle accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at the acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

### Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. Which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when goods are delivered and title is passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's policy for the recognition of revenue from financial guarantee contracts is described in the accounting policy for financial guarantee contracts below.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress and stripping costs (see the accounting policy below), over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss, if any. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Stripping costs

Stripping costs incurred during the development of a limestone mine and during the production phase which provide improved access to ore are capitalised into property, plant and equipment when certain criteria are met. The costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2. Depreciation of capitalised stripping costs is provided on a straight-line basis over their estimated useful lives.

### Mining rights

Mining rights acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of mining rights with finite useful lives is provided on a straight-line basis over their estimated useful lives.

### Prepaid lease payments

Prepaid lease payments represent payments made to acquire land use rights and are amortised on a straight-line basis over the term of the land use rights.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of relevant lease.

*The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating leases payment is recognised as an expense on a straight-line basis over the term of the relevant lease.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Sale and leaseback transactions

When a sale and leaseback transaction results in a finance lease, the Group neither recognise a sale nor derecognise the relevant asset. The initial cash received from the lessor, together with the present value of the obligation to repurchase the asset are recognised as liabilities to the lessor. If the sales proceeds at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (foreign currencies) are recorded in the respective functional currency at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at those dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefits costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

*Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Taxation (Cont'd)

*Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

### Intangible assets

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Financial assets at fair value through profit or loss*

Financial assets are classified as at FVTPL when the financial assets is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

(i) it has been acquired principally for the purpose of selling in the near term; or

(ii) on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial assets (Cont'd)

*Impairment of loans and receivables*

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables carried at amortised cost, an impairment loss is recognised in profit or loss 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 estimated future cash flows discounted at the original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For loans and receivables measured at the amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group entities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

*Financial liabilities at amortised cost*

The Group's financial liabilities including trade and other payables, mid-term debentures, long-term corporate bonds and borrowings are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

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

### Derivative financial instrument

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss arising from subsequent measurement is recognised in profit or loss immediately.

Option or forward contracts to buy an investee or an acquiree that will result in a business combination within the scope of IFRS 3 Business Combinations at a future acquisition date are accounted for derivative financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement, except for the term of the forward contract for acquisition of business that is within a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured are measured at cost less impairment.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Derivative financial instrument (Cont'd)

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

(ii) the amount initially recognised is amortised on a straight-line basis over the guarantee period.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial assets and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Cont'd)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Provision for environmental restoration

The Group is required to incur costs for environment restoration after the underground sites have been mined. Provision for restoration costs were recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amount 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 may 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 estimates is revised if the revision affects only that period, or in the period of the revision and the future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

### Fair value of derivative financial instruments

The Group uses binomial option pricing model for derivative financial instruments which are not quoted in an active market. In estimating the fair value, the Group uses observable data to the extent it is available. However, areas such as volatilities, dividend yield, exercise multiples and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of the derivative financial instruments as at 31 December 2016.

### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of fair value less costs of disposal and value in use. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future estimated cash flows, a material impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is RMB275,489,000 (2015: RMB272,311,000). Details are disclosed in Note 21.

### Estimated impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. The Directors reviews their impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable at the end of each reporting period. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2016, the carrying amount of property, plant and equipment is RMB11,903,679,000 (2015: RMB12,491,514,000). Details of the impairment of property, plant and equipment are disclosed in Note 17.

For the year ended 31 December 2016

## 6. REVENUE

Revenue represents the amount received and receivable for goods sold to external customers, net of sales tax.

An analysis of the Group's revenue for the year is as below:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Sales of cement | **5,736,476** | 5,844,586 |
| Sales of clinker | **272,129** | 350,507 |
| | **6,008,605** | 6,195,093 |

## 7. SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports, which are regularly reviewed by Executive Committee (being the chief operating decision maker) in order to allocate resources to the operating segments and to assess their performance.

The Group's Executive Committee reviews the Group's internal reporting which is mainly based on two broad geographical locations for the purposes of resource allocation and performance assessment. This is the basis upon which the Group is organised. Management has determined the operating segments based on these reports. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The following is an analysis of the Group's revenue and results by reportable and operating segment:

| | Segment revenue | | Segment profit | |
|---|---|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Central China | **4,532,904** | 4,773,973 | **361,252** | 259,850 |
| Northeastern China | **1,475,701** | 1,421,120 | **(46,374)** | (358,569) |
| Total | **6,008,605** | 6,195,093 | **314,878** | (98,719) |
| Unallocated corporate administrative expenses | | | **(20,807)** | (17,138) |
| Unallocated other gains and losses | | | **(24,692)** | (21,186) |
| Unallocated gain on fair value change of derivative financial assets | | | **82,256** | 449,569 |
| Profit before tax | | | **351,635** | 312,526 |

## 7. SEGMENT INFORMATION (Cont'd)

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in Note 4. Segment profit represents the profit before taxation without allocation of certain corporate administrative expense including directors' emoluments, other gains and losses and gain on fair value change of derivative financial assets.

Segment revenues are derived from sales to external customers. There are no inter-segment sales.

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| SEGMENT ASSETS | | |
| Central China | **16,080,283** | 20,011,165 |
| Northeast China | **7,109,872** | 6,277,884 |
| Total segment assets | **23,190,155** | 26,289,049 |
| Derivative financial assets | **761,065** | 678,809 |
| Deferred tax assets | **154,002** | 115,924 |
| Other receivables | **1,630** | 2,686 |
| Cash and bank balances | **9,549** | 4,174 |
| Total assets | **24,116,401** | 27,090,642 |
| SEGMENT LIABILITIES | | |
| Central China | **12,259,633** | 15,089,023 |
| Northeast China | **3,862,091** | 4,331,838 |
| Total segment liabilities | **16,121,724** | 19,420,861 |
| Deferred tax liabilities | **66,527** | 56,054 |
| Tax liabilities | **273,362** | 179,472 |
| Other payables | **15,098** | 16,194 |
| Total liabilities | **16,476,711** | 19,672,581 |

For the purposes of monitoring segment performances and allocating resources between segments:

— all assets are allocated to operating and reportable segments other than derivative financial assets, deferred tax assets, certain other receivables, and cash and bank balances; and

— all liabilities are allocated to operating and reportable segments other than deferred tax liabilities, tax liabilities and certain other payables.

For the year ended 31 December 2016

## 7. SEGMENT INFORMATION (Cont'd)

### Other segment information

Amounts included in the measure of segment profit and segment assets:

*For the year ended 31 December 2016*

| | Central China RMB'000 | Northeast China RMB'000 | Total RMB'000 |
|---|---|---|---|
| Additions to property, plant & equipment | **156,077** | **46,205** | **202,282** |
| Additions to prepaid lease payments | **5,851** | **—** | **5,851** |
| Additions to mining rights | **348** | **11,733** | **12,081** |
| Finance costs | **852,888** | **74,921** | **927,809** |
| Provision for environmental restoration | **1,303** | **363** | **1,666** |
| Depreciation and amortisation | **570,227** | **282,238** | **852,465** |
| (Reverse of) allowance for bad and doubtful debts | **(6,985)** | **5,026** | **(1,959)** |
| (Gain) loss on disposal of property, plant and equipment | **(2,660)** | **4,293** | **1,633** |
| Value Added Tax refund | **(203,400)** | **(31,541)** | **(234,941)** |
| Incentive subsidies | **(8,438)** | **(14,642)** | **(23,080)** |
| Interest on bank deposits | **(94,742)** | **(24,364)** | **(119,106)** |

*For the year ended 31 December 2015*

| | Central China RMB'000 | Northeast China RMB'000 | Total RMB'000 |
|---|---|---|---|
| Additions to property, plant & equipment | 329,051 | 185,754 | 514,805 |
| Additions to prepaid lease payments | 5,076 | 883 | 5,959 |
| Additions to mining rights | 597 | 1,982 | 2,579 |
| Finance costs | 689,124 | 341,558 | 1,030,682 |
| Write-down of inventories | — | 2,932 | 2,932 |
| Provision for environmental restoration | 1,854 | 221 | 2,075 |
| Depreciation and amortisation | 533,211 | 254,386 | 787,597 |
| (Reverse of) allowance for bad and doubtful debts | (5,722) | 7,241 | 1,519 |
| Gain on disposal of property, plant and equipment | (1,735) | (1,346) | (3,081) |
| Value Added Tax refund | (219,816) | (19,656) | (239,472) |
| Incentive subsidies | (15,090) | (15,220) | (30,310) |
| Interest on bank deposits | (116,226) | (16,532) | (132,758) |

## 7. SEGMENT INFORMATION (Cont'd)

### Other segment information (Cont'd)

Revenue from major products has been disclosed in Note 6. All of the Group's operations, as well as all external customers and its non-current assets, are located in the PRC.

No revenue from a single customer or a group of customers under common control contributing over 10% of the total revenue of the Group for the year ended 31 December 2016 and 2015.

## 8. OTHER INCOME

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Value Added Tax refund *(Note i)* | **234,941** | 239,472 |
| Incentive subsidies *(Note ii)* | **23,080** | 30,310 |
| Interest on bank deposits | **119,106** | 132,758 |
| Rental income | **3,583** | 377 |
| Release of deferred income *(Note 40)* | **9,553** | 8,171 |
| Release of financial guarantee liability | **6,303** | 2,490 |
| Profits from sundry operations, net *(Note iii)* | **74,128** | 68,926 |
| Software service income | **52** | 2,564 |
| Others | **3,763** | 6,439 |
| | **474,509** | 491,507 |

*Note:*

i. Value Added Tax refund represents incentives approved by relevant government authorities as a result of utilising industrial waste as part of the production materials.

ii. Amounts mainly represent subsidies granted by certain local governments for encouraging domestic business development.

iii. The balances comprise profits from sundry operations incidental to the main revenue-generating activities of the Group including sales of scrap and raw materials etc.

## 9. OTHER GAINS AND LOSSES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Foreign exchange loss, net | **52,422** | 46,030 |
| Loss (gain) on disposal of property, plant and equipment | **1,633** | (3,081) |
| (Reversal of) allowance for bad and doubtful debts, net | **(1,959)** | 1,519 |
| | **52,096** | 44,468 |

## 10. FINANCE COSTS

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings | **314,031** | 286,775 |
| Finance leases | **2,726** | 10,253 |
| Bills discounted with recourse | **111,173** | 154,669 |
| Short term debentures | **77,252** | 251,987 |
| Mid-term debentures | **279,693** | 246,482 |
| Long-term corporate bonds | **192,810** | 176,347 |
| | **977,685** | 1,126,513 |
| Less: amounts capitalised in the cost of qualifying assets | **(49,876)** | (95,831) |
| | **927,809** | 1,030,682 |

The borrowing costs on general borrowing pool capitalised are calculated by applying capitalisation rate of 7.09% per annum for the year ended 31 December 2016 (2015: 6.44% per annum).

Interest on bills discounted with recourse includes interest on discounted bills issued among subsidiaries of the Group for intra-group transactions of RMB53,333,000 (2015: RMB82,934,000).

## 11. INCOME TAX EXPENSE

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| PRC Enterprise Income Tax ("EIT") | | |
| — current year | 135,819 | 83,565 |
| — (over) under-provision in prior year | (4,668) | 4,826 |
| | 131,151 | 88,391 |
| Deferred tax *(Note 39)* | (29,086) | (59,370) |
| | 102,065 | 29,021 |

No provision for Hong Kong taxation has been made during both years as the Group's income neither arisen nor is derived from Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "PRC EIT Law") and Implementation Regulation of the PRC EIT Law, the tax rate of the PRC subsidiaries is 25%.

The tax charge for the year can be reconciled to profit before taxation per consolidated statement of profit or loss and other comprehensive income as follows.

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Profit before taxation | 351,635 | 312,526 |
| Tax at the applicable rate of 25% (2015: 25%) | 87,909 | 78,132 |
| Tax effect of expenses that are not deductible | 7,319 | 18,438 |
| Tax effect of tax losses not recognised | 38,409 | 40,215 |
| Tax effect of deductible temporary differences not recognised | 204 | 733 |
| Utilisation of deductible temporary differences previously not recognised | (3,996) | — |
| Tax effect of income not taxable for tax purpose | (20,564) | (112,392) |
| (Over) under-provision in prior years | (4,668) | 4,826 |
| Utilisation of tax losses previously not recognised | (1,323) | (2) |
| Others | (1,225) | (929) |
| Income tax expenses for the year | 102,065 | 29,021 |

## 12. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

Profit and total comprehensive income for the year has been arrived at after charging:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Depreciation of property, plant and equipment | **811,769** | 753,541 |
| Release of prepaid lease payments | **22,302** | 18,803 |
| Amortisation of mining rights, included in cost of sales | **17,585** | 14,501 |
| Amortisation of other intangible assets, included in cost of sales | **809** | 752 |
| Total depreciation and amortisation | **852,465** | 787,597 |
| Less: amounts capitalised to inventories | **(711,300)** | (664,905) |
| amounts included in other expenses *(note)* | **(36,954)** | (44,047) |
| | **104,211** | 78,645 |
| Cost of inventories recognised as an expense | **4,491,801** | 4,947,939 |
| Staff costs including retirement benefit | **387,309** | 376,022 |
| Less: amounts capitalised to cost of sales | **(146,510)** | (153,270) |
| | **240,799** | 222,752 |
| Auditor's remuneration | **3,000** | 3,000 |
| Release of financial guarantee liability | **6,303** | 2,490 |

*Note:*

Depreciation and amortisation amounting to RMB36,954,000 (2015: RMB44,047,000) during the temporary suspension period due to seasonal effect are included in other expenses on the consolidated statement of profit or loss and other comprehensive income.

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive officer were as follows:

| | Note | 2016 Fee RMB'000 | 2016 Salaries and other allowances RMB'000 | 2016 Contributions to retirement benefits schemes RMB'000 | 2016 Total emoluments RMB'000 | 2015 Fee RMB'000 | 2015 Salaries and other allowances RMB'000 | 2015 Contributions to retirement benefits schemes RMB'000 | 2015 Total emoluments RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | | |
| Mr. Yang Yongzheng | i | — | — | — | — | 369 | — | — | 369 |
| Mr. Xu Wuxue | | 408 | — | — | 408 | 407 | — | — | 407 |
| Mr. Li Jiangming | | 690 | — | — | 690 | 717 | — | — | 717 |
| | | 1,098 | — | — | 1,098 | 1,493 | — | — | 1,493 |
| **Non-executive directors** | | | | | | | | | |
| Mr. Li Liufa | | — | — | — | — | — | — | — | — |
| Mr. Li Heping | ii | — | — | — | — | — | — | — | — |
| Mr. Yang Yongzheng | i | — | — | — | — | — | — | — | — |
| | | — | — | — | — | — | — | — | — |
| **Independent non-executive directors** | | | | | | | | | |
| Mr. Kong Xiangzhong | | — | — | — | — | 200 | — | — | 200 |
| Mr. Wang Ping | | 215 | — | — | 215 | 201 | — | — | 201 |
| Mr. Du Xiaotang | | 215 | — | — | 215 | 201 | — | — | 201 |
| | | 430 | — | — | 430 | 602 | — | — | 602 |
| | | 1,528 | — | — | 1,528 | 2,095 | — | — | 2,095 |

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company and the Group.

## 13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Cont'd)

*Note:*

i Mr. Yang Yongzheng was re-designated from an executive director to non-executive director of the Company with effect from 3 December 2015.

ii Mr. Li Heping resigned as the chief executive officer of the Company on 1 December 2015 and was appointed as non-executive director on 4 December 2015.

iii The emoluments of all directors were calculated based on their respective actual terms of office within the year.

## 14. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included two (2015: three) directors and/or chief executive officer of the Company for the year (details of whose emoluments are set out in note 13 above), the emoluments of the remaining three (2015: two) highest paid individuals for the year were as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Salaries and other allowances | **1,120** | 987 |
| Performance related incentive payments | **210** | 248 |
| Retirement benefit scheme contribution | **21** | 10 |
| | **1,351** | 1,245 |

The emolument of each of the above employees is below HK$1,000,000 (equivalent to approximately RMB894,500).

No emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the both years.

Neither the chief executive officer nor any of the Directors waived any emoluments during the year ended 31 December 2016 and 2015.

The performance related incentive payment is determined based on the employee's contribution to the operating result of the Group for the each of the year ended 31 December 2016 and 2015.

## 15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company for the each of reporting period is based on the following data:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company | **295,812** | 313,079 |

| | 2016<br>'000 | 2015<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Number of shares for the purpose of basic earnings per share | **2,400,900** | 2,400,900 |

No diluted earnings per share is presented for both 2016 and 2015 as there were no potential ordinary shares in issue for both 2016 and 2015.

## 16. DIVIDEND

Dividends for the shareholders of the Company recognised as distribution during the year:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Dividends recognized as distributions during the year | — | 504,189 |

On 18 March 2015, the Company declared a dividend of RMB0.21 per share with total dividends of RMB504,189,000 to shareholders for the year ended 31 December 2014. The dividend was paid in June 2015.

Subsequent to the end of the reporting period, no dividend in respect of the year ended 31 December 2016 has been proposed by the board of directors.

For the year ended 31 December 2016

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Motor vehicles | Office equipment | Stripping costs | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| COST | | | | | | | |
| At 1 January 2014 | 6,479,648 | 6,976,860 | 125,857 | 106,529 | 1,425,754 | 1,360,701 | 16,475,349 |
| Additions | 4,771 | 26,827 | 6,448 | 9,090 | 31,166 | 436,503 | 514,805 |
| Disposals | (45) | (1,050) | (6,584) | (360) | — | — | (8,039) |
| Transfer | 380,265 | 258,354 | — | 774 | — | (639,393) | — |
| At 31 December 2015 | 6,864,639 | 7,260,991 | 125,721 | 116,033 | 1,456,920 | 1,157,811 | 16,982,115 |
| Additions | 23,885 | 4,338 | 4,323 | 6,601 | 11,620 | 151,515 | 202,282 |
| Additions from acquisition of subsidiaries *(Note 50)* | 14,910 | 7,638 | 1,617 | 143 | — | — | 24,308 |
| Disposals | (376) | (34,502) | (4,082) | (2) | — | — | (38,962) |
| Transfer | 474,370 | 285,753 | 618 | — | 314,285 | (1,075,026) | — |
| At 31 December 2016 | 7,377,428 | 7,524,218 | 128,197 | 122,775 | 1,782,825 | 234,300 | 17,169,743 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2015 | 991,050 | 2,427,770 | 100,485 | 88,068 | 135,697 | — | 3,743,070 |
| Provided for the year | 205,621 | 431,194 | 28,569 | 5,258 | 82,899 | — | 753,541 |
| Eliminated on disposals | (21) | (279) | (5,368) | (342) | — | — | (6,010) |
| At 31 December 2015 | 1,196,650 | 2,858,685 | 123,686 | 92,984 | 218,596 | — | 4,490,601 |
| Provided for the year | 224,968 | 493,787 | 4,381 | 6,310 | 82,323 | — | 811,769 |
| Eliminated on disposals | — | (32,445) | (3,859) | (2) | — | — | (36,306) |
| At 31 December 2016 | 1,421,618 | 3,320,027 | 124,208 | 99,292 | 300,919 | — | 5,266,064 |
| CARRYING AMOUNTS | | | | | | | |
| At 31 December 2015 | 5,667,989 | 4,402,306 | 2,035 | 23,049 | 1,238,324 | 1,157,811 | 12,491,514 |
| At 31 December 2016 | 5,955,810 | 4,204,191 | 3,989 | 23,483 | 1,481,906 | 234,300 | 11,903,679 |

## 17. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, other than construction in progress and stripping costs, are depreciated over their useful lives, after taking into account the estimated residual value, on a straight-line basis:

| | |
|---|---|
| Buildings | 20–30 years |
| Plant and machinery | 5–15 years |
| Motor vehicles | 5 years |
| Office equipment | 5 years |

Stripping costs are depreciated on a straight-line basis over their estimated useful lives ranged from 15 to 20 years. Costs incurred on stripping activity which provide improved access to the whole of the remaining ore body are depreciated over the remaining useful life of the relevant mine. Costs incurred in respect of an identified component of the ore body that is made more accessible by the activity are depreciated over a shorter period than the life of the mine. The management considers that the straight-line basis is more appropriate due to difficulty in determining the pattern of consumption of the future economic benefits reliably as the quantity of outputs to be extracted may be impacted by economical and geographical reasons.

### Impairment assessment

By the end of 31 December 2016, certain subsidiaries of the Company incurred loss for more than two consecutive years, and there was indication that property, plant and equipment may suffer an impairment loss. The management of the Group has conducted impairment testing. Their major underlying assumptions are summarized below:

Recoverable amount is the higher of fair value less costs of disposal and value in use, the recoverable amounts of the relevant cash-generating units ("CGUs") have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the respective subsidiary covering the following 5 years with an annual growth rate 2% and pre-tax discount rate is 9% to 10% as at 31 December 2016 (31 December 2015: 9% to 10%), respectively. This growth rate is based on the industry growth forecasts and does not exceed the average medium-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rate. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the CGUs' past performance and management expectations for the market development.

## 17. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

### Impairment assessment (Cont'd)

As a result of the above assessment, the Directors consider that there is no impairment for property plant and machinery as at 31 December 2016 and 2015.

Details of the property, plant and equipment pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 43.

The carrying amounts of buildings, which the application to obtain the ownership certificates is still in process, are approximately RMB782,876,000 as at 31 December 2016 (31 December 2015: RMB847,408,000).

The carrying amount of equipment, which are under finance lease arrangement, is approximately RMB23,849,000 as at 31 December 2016 (31 December 2015: RMB73,079,000).

## 18. DEPOSITS AND ADVANCES

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Deposits paid for acquiring property, plant and equipment, land use rights and mining rights | **434,772** | 469,751 |
| Deposits for acquisition of businesses *(i)* | **1,770,121** | 1,961,457 |
| | **2,204,893** | 2,431,208 |

i. Deposits included in this balance amounting to RMB1,770,121,000 as at 31 December 2016 (31 December 2015: RMB1,791,019,000) were related to the acquisition of certain business which are expected to be completed in 2017.

## 19. PREPAID LEASE PAYMENTS

| | **Prepaid lease payments** RMB'000 |
|---|---|
| At 1 January 2015 | 843,554 |
| Additions | 5,959 |
| Released to profit or loss | (18,803) |
| At 31 December 2015 | 830,710 |
| Additions | 5,851 |
| Acquisition of a subsidiary *(Note 50)* | 8,556 |
| Released to profit or loss | (22,302) |
| At 31 December 2016 | 822,815 |

Analysis for reporting purposes as:

| | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|
| Current assets included in trade and other receivables *(Note 26)* | **20,873** | 19,116 |
| Non-current assets | **801,942** | 811,594 |
| | **822,815** | 830,710 |

The carrying amounts of land use right, which the application to obtain the certificates is still in process, are approximately RMB36,664,000 as at 31 December 2016 (31 December 2015: RMB38,136,000).

Prepaid lease payments are amortised over the lease term of the respective leases.

Details of the land use rights pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 43.

## 20. MINING RIGHTS

| | Mining rights |
|---|---|
| | RMB'000 |
| COST | |
| At 1 January 2015 | 346,617 |
| Additions | 2,579 |
| At 31 December 2015 | 349,196 |
| Additions | 12,081 |
| At 31 December 2016 | 361,277 |
| ACCUMULATED AMORTISATION | |
| At 1 January 2015 | 79,289 |
| Amortisation | 14,501 |
| At 31 December 2015 | 93,790 |
| Amortisation | 17,585 |
| At 31 December 2016 | 111,375 |
| CARRYING AMOUNTS | |
| At 31 December 2015 | 255,406 |
| At 31 December 2016 | 249,902 |

The useful lives of the mining rights in respect of limestone sites located in the PRC, mainly ranged from 10–33 years.

## 21. GOODWILL

For the purposes of impairment testing, goodwill has been allocated to thirteen (2015: twelve) cash generating units ("CGUs") or group of CGUs, comprising fifteen (2015: fourteen) subsidiaries. The carrying amounts of goodwill as at 31 December 2016 and 2015 allocated to these units are as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| COST | | |
| At 1 January | **272,311** | 272,311 |
| Arising on acquisition of a subsidiary *(Note 50)* | **3,178** | — |
| At 31 December | **275,489** | 272,311 |
| CARRYING AMOUNTS | | |
| At 31 December | **275,489** | 272,311 |

## 21. GOODWILL (Cont'd)

The carrying amounts of goodwill allocated to CGUs or groups of CGU of the relevant companies, represent the lowest level within the Group at which goodwill is monitored for internal management purpose, as are set out below:

| | **2016 RMB'000** | 2015 RMB'000 |
|---|---|---|
| Weihui Shi Tianrui Cement Company Limited | **10,502** | 10,502 |
| Zhengzhou Tianrui Cement Company Limited | **1,773** | 1,773 |
| Pingdingshan Tianrui Yaodian Cement Company Limited | **6,689** | 6,689 |
| Liaoyang Tianrui Weiqi Cement Company Limited (遼陽天瑞威企水泥有限公司) ("Weiqi Cement") | **33,422** | 33,422 |
| Liaoyang Tianrui Chengxing Cement Company Limited (遼陽天瑞誠興水泥有限公司) ("Chengxing Cement") | **13,628** | 13,628 |
| Liaoyang Tianrui Liaota Cement Company Limited (遼陽天瑞遼塔水泥有限公司) ("Liaota Cement"); and Liaoyang Tianrui Liaodong Cement Company Limited (遼陽天瑞遼東水泥有限公司) ("Liaodong Cement"); and Liaoyang Tianrui Liaota Mining Company Limited (遼陽天瑞遼塔礦業有限公司) ("Dengta Mining") (Collectively referred to as the "Liaota Group") | **29,284** | 29,284 |
| Dalian Tianrui Jinhaian Cement Company Limited (大連天瑞金海岸水泥有限公司) ("Jinhaian Cement") | **49,558** | 49,558 |
| Xinyang Tianrui Cement Company Limited (信陽天瑞水泥有限公司) ("Xinyang Cement") | **16,624** | 16,624 |
| Shenyang Tiger Cement Company Limited (瀋陽老虎水泥有限公司) ("Tiger Cement") | **3,974** | 3,974 |
| Zhuanghe Tianrui Cement Company Limited (莊河天瑞水泥有限公司) ("Zhuanghe Cement") | **30,059** | 30,059 |
| Haicheng the First Cement Company Limited (海城市第一水泥有限公司) ("Haicheng Cement") | **71,161** | 71,161 |
| Haicheng Tianying Construction Stone Mining Company Limited (海城市天鷹建築石材採掘有限公司) ("Tianying Mining") | **5,637** | 5,637 |
| Panjin Jinrun Cement Company Limited (盤錦金潤水泥有限公司) ("Panjin Cement") | **3,178** | — |
| | **275,489** | 272,311 |

## 21. GOODWILL (Cont'd)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of the relevant CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management of the respective subsidiary covering the following 5 years with an annual growth rate 2% and pre-tax discount rate is 9% to 10% as at 31 December 2016 (31 December 2015: 9% to 10%), respectively. This growth rate is based on the industry growth forecasts and does not exceed the average medium-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rate. Another key assumption for the value in use calculated is the budgeted gross margin, which is determined based on the CGUs' past performance and management expectations for the market development.

The Directors consider that there is no impairment for any of its CGUs containing goodwill as at 31 December 2016 and 2015.

## 22. OTHER INTANGIBLE ASSETS

| | **Operating lease contracts** RMB'000 |
|---|---|
| COST | |
| At 1 January 2015, 31 December 2015 and 2016 | 9,353 |
| ACCUMULATED AMORTISATION | |
| At 1 January 2015 | 1,994 |
| Amortisation | 752 |
| At 31 December 2015 | 2,746 |
| Amortisation | 809 |
| At 31 December 2016 | 3,555 |
| CARRYING AMOUNTS | |
| At 31 December 2015 | 6,607 |
| At 31 December 2016 | 5,798 |

The intangible assets were acquired on acquisition of a subsidiary and are amortised on a straight-line basis over the respective contractual lease term of 7 and 18 years.

## 23. INTERESTS IN ASSOCIATES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cost of investment in associates | **225,000** | 225,000 |
| Share of post-acquisition losses | **(115,477)** | (119,729) |
| | **109,523** | 105,271 |

Details of the associates as at the end of reporting period are as follows:

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid share capital/registered capital | Proportion of ownership interest and voting right 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| Pingdingshan Ruiping Shilong Cement Company Limited 平頂山瑞平石龍水泥有限公司 | The PRC 12 September 2005 | RMB300,000,000 | **40** | 40 | Manufacture and sale of clinker in the PRC |
| Tianrui Group Finance Company Limited 天瑞集團財務有限公司 | The PRC 22 July 2015 | RMB300,000,000 | **35** | 35 | Financing and relevant service in the PRC |

## 23. INTERESTS IN ASSOCIATES (Cont'd)

The summarised financial information in respect of the Group's associates is set out below:

### Pingdingshan Ruiping Shilong Cement Company Limited

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current assets | **140,302** | 142,353 |
| Non-current assets | **546,668** | 590,518 |
| Current liabilities | **1,182,973** | 1,174,362 |

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Revenue | **245,978** | 189,596 |
| Loss and total comprehensive expense for the year | **(54,577)** | (100,122) |

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognised share of loss of the associate, extracted from the financial statements of the associate prepared in accordance with IFRSs, are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Unrecognised share of loss of the associates for the year | **21,831** | 40,049 |
| Accumulated unrecognised share of loss of the associate | **198,428** | 176,597 |

## 23. INTERESTS IN ASSOCIATES (Cont'd)

### Tianrui Group Finance Company Limited ("Tianrui Finance")

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current assets | **449,694** | 614,724 |
| Current liabilities | **136,772** | 313,949 |

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Revenue | **26,231** | 5,771 |
| Profit and total comprehensive income for the year | **12,148** | 775 |

Reconciliation of the above summarised financial information to the carrying amount of the interests in the Tianrui Finance recognised in the consolidated financial statements:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Net assets | **312,922** | 300,775 |
| Proportion of the Group's ownership interest in the associates | **35%** | 35% |
| Carrying amount of the Group's interest in the associates | **109,523** | 105,271 |

## 24. INVENTORIES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Raw materials and consumables | **501,457** | 524,020 |
| Work-in-progress | **11,289** | 9,850 |
| Finished goods | **237,925** | 298,371 |
| | **750,671** | 832,241 |

## 25. DERIVATIVE FINANCIAL ASSETS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Derivative financial assets | | |
| — Fair value | **761,065** | 678,809 |

The Group and Tianrui Group, controlled by Mr. Li Liufa, a non-executive director of the Company, entered into the amended deed of non-competition undertaking in favor of the Company ("Amended Non-competition Deed"). The details of the Amended Non-competition Deed are set out in the Company's circular dated 31 October 2014 (the "Circular"). Under the Amended Non-competition Deed, Tianrui Group was allowed to pursue the business which is or may be in competition, directly or indirectly, with the business of the Group (the "New Business Opportunity") subject to certain restrictions and an option in favor of the Company over the business subsequently developed by Tianrui Group. The Group is entitled to exercise the option at any time during the relevant restricted period as defined in the Amended Non-competition Deed (the "Restricted Period").

In addition, Tianrui Group have further undertaken that during the Restricted Period, without the Company's prior written consent, Tianrui Group and/or their respective associate(s) shall not transfer or dispose of any business subsequently developed from the New Business Opportunity (the "New Business") or any interest in the New Business to any third party, or create any mortgage, pledge, lien or any other encumbrance or third party's rights over the New Business or any interest in it.

Under the Amended Non-competition Deed, the Group has the option to acquire the New Business or any interest in it in accordance with (a) commercial terms which (i) will not be less favorable than those applicable to the acquisition of the same New Business Opportunity by Tianrui Group in the first instance, provided that the Company shall reimburse Tianrui Group for the acquisition costs (including tax expenses, financing costs, professional fees and travelling expenses) incurred by them in respect of their acquisition of such New Business Opportunity; and (ii) have been opined by an independent financial adviser of the Company as being normal commercial terms arrived at in the ordinary course of business of the Company, fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (b) any requirement under the Listing Rules in relation to the acquisition of the New Business and any interest in it.

## 25. DERIVATIVE FINANCIAL ASSETS (Cont'd)

As at 31 December 2016 and 2015, Tianrui Group has acquired certain shares of four companies including Henan Tongli Cement Corporation (河南同力水泥股份有限公司, "Henan Tongli"), a company listed on the Shenzhen Stock Exchange, China ShanShui Cement Group Limited ("Shanshui Cement"), a company listed on The Stock Exchange of Hong Kong Limited, which represented about 15.03% equity interests of Henan Tongli, 28.16% equity interests of Shanshui Cement and 55% and 100% equity interests of Tianrui Xindeng Zhengzhou Cement Company Limited (天瑞新登鄭州水泥有限公司) ("Xindeng Cement"), formerly known as Guotou Xindeng Zhengzhou Cement Company Limited (國投新登鄭州水泥有限公司), and Henan Yongan Cement Company Limited (河南永安水泥有限責任公司) ("Yongan Cement") respectively. These companies mainly engage in cement related businesses and hence fulfilled the definition of New Business pursuant to the option agreement. Accordingly, the Group has the option to acquire these companies at any time during the Restricted Period. The option falls within the scope of IAS 39 Financial Instruments: Recognition and Measurement as derivative financial instruments. For valuation purpose, the options are fair valued for each of the four investee companies separately as the Group is able to exercise the option independently. Except for Yongan Cement and Xindeng Cement as disclosed below, the Group has not exercised the option to acquire the interests of the other companies as at 31 December 2016.

On 25 November 2016, the Group and Tianrui Group entered into the acquisition agreement, pursuant to which Tianrui Group conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares which represent 100% equity interest of Yongan Cement and 55% equity interest in Xindeng Cement, at a total consideration of RMB919,000,000, which is less than the original acquisition consideration incurred by Tianrui Group. The acquisition has not been completed as at the date of issuance of the consolidated financial statements as it was subject to approval of shareholders of the Company and relevant regulators. The fair value of the option to acquire Yongan Cement at the initial recognition and the changes in fair value during the year ended 31 December 2015 and 2016 is insignificant.

The total fair values of the options to acquire Henan Tongli and Xindeng Cement at initial recognition was estimated to be RMB229,240,000 which was considered as a deemed contribution from Tianrui Group and credited to other reserves on the consolidated statement of changes in equity. The changes in fair value amounting to RMB449,569,000 subsequent to initial recognition was recognised in profit or loss during the year ended 31 December 2015. And the changes in fair value amounting to RMB82,256,000 was recognised in profit or loss during the year ended 31 December 2016. The details for the fair value measurement of the options are detailed in Note 49.3.

In the opinion of the Directors, the option to acquire Shanshui Cement cannot be reliably measured as the range of reasonable fair value measurements is significant and the probabilities of the various estimates cannot be reasonably assessed. Trading of Shanshui Cement shares was suspended since April 2015 due to the public float fallen below 25% as required under the Listing Rules. Furthermore, the management has limited access to the financial information of Shanshui Cement other than those are made available to the public.

## 26. TRADE AND OTHER RECEIVABLES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Trade receivables | **188,830** | 384,246 |
| Less: allowances for bad and doubtful debts | **(25,948)** | (21,664) |
| | **162,882** | 362,582 |
| Bills receivables | **684,820** | 612,267 |
| Bills endorsed to suppliers *(Note)* | **1,382,498** | 1,702,987 |
| Advance to suppliers | **126,751** | 148,212 |
| Value Added Tax refund receivables | **29,853** | 26,122 |
| Prepayment for various taxes | **69,012** | 66,798 |
| Prepaid lease payments *(Note 19)* | **20,873** | 19,116 |
| Interest receivable | **79,624** | 51,008 |
| Other receivables | **211,789** | 213,086 |
| Less: allowances for bad and doubtful debts | **(25,819)** | (32,062) |
| Net amount of other receivables | **185,970** | 181,024 |
| | **2,742,283** | 3,170,116 |

Bills receivables amounted to RMB667,458,000 as at 31 December 2016 (31 December 2015: RMB602,650,000) were discounted to banks to obtain borrowings of which RMB570,000,000 (31 December 2015: RMB590,000,000) relates to bills receivable issued among subsidiaries of the Group for intra-group transactions (See Notes 27 and 33).

*Note:*

In addition to the above, the Group has also endorsed bills receivable arising from intra-group transaction to suppliers amounting to RMB1,767,000,000 (2015: RMB2,865,000,000) as at the end of the reporting period. The bills receivable and related payables issued between group entities were fully eliminated in the consolidated financial statements.

## 26. TRADE AND OTHER RECEIVABLES (Cont'd)

The aged analysis of the Group's trade receivables (net of allowances) and bills receivables (excluding bills endorsed to suppliers) from the goods delivery date at the end of each reporting period is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within 90 days | **186,942** | 303,614 |
| 91–180 days | **341,572** | 535,937 |
| 181–360 days | **245,417** | 5,551 |
| Over 1 year | **73,771** | 129,747 |
| Total | **847,702** | 974,849 |

Before accepting any new credit customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit period attributed to customers are reviewed on a customer by customer basis. Over 90% of trade receivable and bills receivable that are neither past due nor impaired are regarded as customers with good credit quality under the internal assessment process used by the Group.

Included in the Group's trade receivable are debtors with aggregate carrying amount of RMB319,188,000 which are past due as at 31 December 2016 (31 December 2015: RMB135,298,000) for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. No allowance has been provided for those balances as the Group considers that there is no significant change in the credit quality of those customers from the date credit was initially granted up to the end of the reporting period.

The aged analysis of the Group's trade receivables which are past due but not impaired as at the end of each reporting period is as follows:

Past due for:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| 181–360 days | **245,417** | 5,551 |
| Over 1 year | **73,771** | 129,747 |
| Total | **319,188** | 135,298 |

## 26. TRADE AND OTHER RECEIVABLES (Cont'd)

### Movement in the allowance for bad and doubtful debts

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Balance at beginning of the year | **53,726** | 52,207 |
| Provided for the year | **16,069** | 11,865 |
| Reversal for the year | **(18,028)** | (10,346) |
| Balance at the end of the year | **51,767** | 53,726 |

Included in the allowance for bad and doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB51,767,000 (31 December 2015: RMB53,726,000), including bad and doubtful debts of other receivable amount to RMB25,819,000 (31 December 2015: RMB32,602,000) which was considered as uncollectable. The Group does not hold any collateral over these balances.

Details of bills receivables pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 43.

## 27. TRANSFER OF FINANCIAL ASSETS

As at 31 December 2016, bills receivables with carrying amount of RMB97,458,000 (31 December 2015: RMB12,650,000) were transferred to banks by discounting those receivables on a full recourse basis and the carrying amount of the associated liability is RMB95,571,000 (31 December 2015: RMB12,374,000). As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 33). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2016, bills receivables with carrying amount of RMB1,382,498,000 (31 December 2015: RMB1,702,987,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables.

In addition, bills receivable issued among subsidiaries of the Group for intra-group transactions amounting to RMB570,000,000 (31 December 2015: RMB590,000,000) were transferred to banks by discounting those receivables on a full recourse basis to secure bank borrowings amounting to RMB552,687,000 (31 December 2015: RMB566,838,000) (see note 33) and these bills receivable and the related intra-group payables have been eliminated in the consolidated financial statements.

Bills receivable issued among subsidiaries of the Group for intra-group transactions amounting to RMB1,767,000,000 (2015: RMB2,865,000,000) were endorsed to suppliers on a full recourse basis and these bills receivable and the related intra-group payables have been eliminated in the consolidated financial statements.

## 28. AMOUNT DUE FROM AN ASSOCIATE

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司) *(note)* | **323,774** | 508,064 |

*Note:* The amount represents the advance payment to the related party for the purchase of goods.

## 29. PLEDGED BANK BALANCES

As at 31 December 2016, pledged bank balances represent deposits pledged to banks for (i) securing bank borrowings granted to the Group amounting to RMB571,450,000 (details disclosed in Note 43), and (ii) issuing trade facilities such as bills payable and bankers' guarantee amounting to RMB2,535,752,000.

As at 31 December 2015, pledged bank balances represent deposits pledged to banks for (i) securing bank borrowings granted to the Group amounting to RMB802,300,000 (details disclosed in Note 43), and (ii) issuing trade facilities such as bills payable and bankers' guarantee amounting to RMB3,886,966,000.

The pledged bank balances carry market interest rate of 0.35% to 3.25% per annum as at 31 December 2016 (31 December 2015: 0.35% to 2.0% per annum).

## 30. CASH AND BANK BALANCES

The amounts represent cash and bank balances held by the Group. As at 31 December 2016, bank balances carry interest at market rates of 0.01% and 4.25% per annum (31 December 2015: 0.01% and 4.25% per annum).

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## 31. TRADE AND OTHER PAYABLES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Trade payables | **1,250,175** | 1,127,011 |
| Bills payables | **1,205,000** | 1,734,000 |
| Construction cost and retention payable | **377,073** | 318,153 |
| Advances from customers | **184,768** | 219,380 |
| Other tax payables | **59,848** | 45,141 |
| Other payables — current *(Note 38)* | **12,900** | 4,500 |
| Payables for mining rights | **8,300** | 8,300 |
| Interest payables | **252,440** | 438,856 |
| Other payables and accrued expenses | **233,775** | 217,527 |
| | **3,584,279** | 4,112,868 |

The aged analysis of the Group's trade and bills payable from the goods receipt date as at the end of each reporting period is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Within 90 days | **1,654,216** | 1,739,412 |
| 91–180 days | **358,607** | 484,200 |
| 181–365 days | **300,174** | 570,565 |
| Over 1 year | **142,178** | 66,834 |
| Total | **2,455,175** | 2,861,011 |

## 32. SHORT TERM DEBENTURES

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Short term debentures | **—** | 3,792,019 |

The Group has no short term debenture as at 31 December 2016, as the short term debentures issued in prior year were paid up in the year 2016.

## 33. BORROWINGS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Bank borrowings | | |
| — fixed-rate (i) | **3,828,796** | 2,050,000 |
| — variable-rate (ii, iii) | **1,182,337** | 1,860,211 |
| Other borrowings | | |
| — fixed-rate (i) | **790,326** | — |
| | **5,801,459** | 3,910,211 |
| Bank borrowing relating to bills discounted with recourse (iv) *(Note 27)* | **648,258** | 579,212 |
| | **6,449,717** | 4,489,423 |
| Secured | **3,569,127** | 3,179,423 |
| Unsecured | **2,880,590** | 1,310,000 |
| | **6,449,717** | 4,489,423 |

*Note:*

i As at 31 December 2016, the fixed-rate borrowings carry interests ranged from 4.35% to 14.40% per annum (31 December 2015 from 4.35% to 10.40% per annum).

ii As at 31 December 2016, the variable-rate borrowings carry interests ranged from 2.39% to 6.89% per annum (31 December 2015: from 2.86% to 6.89%per annum).

iii As at 31 December 2016, the interest rate of US Dollar variable-rate loans, amounting to RMB738,636,000 (31 December 2015: RMB704,211,000) is determined based on London Interbank Offered Rate ("LIBOR") plus from 2.39% to 4.02% per annum (2015: LIBOR plus from 2.60% to 3.35% per annum), and interest rate of remaining RMB variable-rate loans is determined based on the Benchmark Interest Rate announced by the People's Bank of China.

iv As at 31 December 2016, the amounts represented the cash received on bills receivables discounted to various banks with full recourse of which RMB552,687,000 (31 December 2015: RMB566,838,000) relates to discounted bills issued among subsidiaries of the Group for intra-group transactions. The discounted bills carried fixed interests ranging from 1.78% to 7.73% per annum (31 December 2015: from 2.99% to 7.30% per annum).

## 33. BORROWINGS (Cont'd)

The borrowings are repayable as follows (note):

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Within one year | **5,921,033** | 4,334,423 |
| More than one year, but not exceeding two years | **460,114** | 125,000 |
| More than two years, but not exceeding five years | **68,570** | 30,000 |
| | **6,449,717** | 4,489,423 |
| Less: Amount due within one year shown under current liabilities | **(5,921,033)** | (4,334,423) |
| Amount due after one year | **528,684** | 155,000 |

*Note:*

The amounts due are based on scheduled repayment dates set out in the loan agreement.

During the year, the Group discounted bills receivable with recourse in aggregated amounts of RMB418,191,000 (2015: RMB479,383,000) to banks for short term financing. As at 31 December 2016, the associated borrowings amount to RMB95,571,000 (2015: RMB12,374,000). The relevant cash flows of these borrowings are presented as operating cash flows in the consolidated statement of cash flows as the management considers the cash flows are, in substance, the receipts from trade customers.

Details of assets pledged to secure bank borrowings are set out in Note 43.

The Directors consider that the carrying amounts of borrowings and related interest amounting to RMB19,821,000 (31 December 2015: RMB9,984,000) as at 31 December 2016 recognised in the consolidated financial statements approximate to their fair value.

## 34. OBLIGATIONS UNDER FINANCE LEASES

| | At 31 December 2016 RMB'000 | At 31 December 2015 RMB'000 |
|---|---|---|
| Analyzed for reporting purposes as: | | |
| Current liabilities | **28,861** | 55,358 |
| Non-current liabilities | **—** | 28,887 |
| | **28,861** | 84,245 |

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## 34. OBLIGATIONS UNDER FINANCE LEASES (Cont'd)

The Group has entered into sale and leaseback transactions which give rise to finance leases. The lease assets, including plant and equipment, were continued to be recognised as property, plant and equipment of the Group. The average lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.99% to 5.52% per annum (31 December 2015: from 5.52% to 6.72% per annum).

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **31/12/2016 RMB'000** | 31/12/2015 RMB'000 | **31/12/2016 RMB'000** | 31/12/2015 RMB'000 |
| **Amounts payable under finance leases** | | | | |
| Within one year | **29,541** | 59,130 | **28,861** | 55,358 |
| In more than one year but not more than two years | **—** | 29,640 | **—** | 28,887 |
| In more than two years but not more than five years | **—** | — | **—** | — |
| | **29,541** | 88,770 | **28,861** | 84,245 |
| Less: future finance charges | **(680)** | (4,525) | **N/A** | N/A |
| Present value of lease obligations | **28,861** | 84,245 | **28,861** | 84,245 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(28,861)** | (55,358) |
| Amount due for settlement after 12 months | | | **—** | 28,887 |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

## 35. FINANCIAL GUARANTEE CONTRACTS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Financial guarantee contracts | **26,875** | 10,637 |

As at 31 December 2016, outstanding financial guarantees in respect of bank facilities provided by the Group to Tianrui Group, and four subsidiaries of Tianrui Group, including Ruzhou Tianrui Coking Company Limited (汝州天瑞煤焦化有限公司) ("Tianrui Coking"), Tianrui Group Travel Development Company Limited (天瑞集團旅遊發展有限公司) ("Tianrui Travel"), Tianrui Foundry Company Limited (天瑞集團鑄造有限公司) ("Tianrui Foundry") and Tianrui Group Yunyang Foundry Company Limited (天瑞集團雲陽鑄造有限公司) ("Yunyang Foundry"), amounted to 110,000,000 (31 December 2015: 40,000,000), RMB522,000,000 (31 December 2015: RMB522,000,000), RMB660,000,000 (31 December 2015: RMB660,000,000), RMB250,000,000 (31 December 2015: Nil) and Nil (31 December 2015: RMB250,000,000) respectively, of which utilised and drawn down facilities amounted to RMB20,000,000 (31 December 2015: 40,000,000), RMB217,000,000 (31 December 2015: RMB337,000,000), RMB660,000,000 (31 December 2015: RMB270,650,000), 210,000,000 (31 December 2015: Nil) and Nil (31 December 2015: Nil) respectively. These financial guarantee were provided for a period of 2 years, 7 years, 10 years and 3 years respectively.

The total fair value of financial guarantee contracts at initial recognition of RMB22,541,000 (2015: RMB3,807,000) were calculated using the guarantee fee rate estimated by reference to the probability of default of the recipients and considered as deemed distribution to Tianrui Group and debited to other reserves on the consolidated statement of changes in equity.

## 36. MID-TERM DEBENTURES

| | **Mid-term debentures**<br>RMB'000 |
|---|---|
| At 1 January 2015 | 2,492,595 |
| Additions | 2,136,176 |
| Repayments | (944,600) |
| At 31 December 2015 | 3,684,171 |
| Additions | 2,675,183 |
| Repayments | (3,584,171) |
| At 31 December 2016 | 2,775,183 |

## 36. MID-TERM DEBENTURES (Cont'd)

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Mid-term debentures | **2,775,183** | 3,684,171 |
| Less: Amount due within one year | **(2,275,183)** | (1,300,000) |
| Amount due after one year | **500,000** | 2,384,171 |

The amounts as at 31 December 2016 represented the mid-term debentures which included:

(i) the issuance of the enterprise private debentures of RMB500,000,000 on 9 January 2015 with maturity of three years, carrying fixed interest rate at 8.50% per annum;

(ii) the issuance of the enterprise private debentures of RMB500,000,000 on 27 August 2015 with maturity of two years, carrying fixed interest rate at 7.90% per annum, and the Group has the right to unadjust or adjust the enterprise private debentures rate for the second year at the end of the first year by giving a notice to the debenture holders. The debenture holders may accordingly at their option to require the Group to redeem the debentures at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining enterprise private debentures will be subject to the interest rate offered by the Group at the end of the first year until the maturity date. During the year ended 31 December 2016, the debentures amounting to RMB400,000,000 were redeemed and the remaining debentures amounting to RMB100,000,000 will be matured on 27 August 2017;

(iii) the issuance of mid-term debenture of RMB550,000,000 on 14 September 2015 and RMB450,000,000 on 23 October 2015 with maturity of two years, both carrying fixed interest rate at 8.00% per annum, and the Group has the right to unadjust or adjust the debentures rate for the second year of each of the debentures at the end of the first year by giving a notice to the debenture holders respective. Each of the debenture holders may accordingly at their option to require the Group to redeem the debentures at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining debentures will be subject to the interest rate offered by the Group at the end of the first year until the maturity date. During the year ended 31 December 2016, the debentures amounting to RMB550,000,000 and RMB230,000,000 were redeemed and the remaining debentures amounting to RMB220,000,000 will be matured on 22 October 2017;

(iv) the issuance of the enterprise private debentures of RMB500,000,000, RMB900,000,000 and RMB600,000,000 on 25 August 2016, 20 September 2016 and 21 October 2016 respectively with maturity of two years, all carrying fixed interest rate of 7.00% per annum. According to the terms and conditions of enterprise private debentures, the Group has the right to unadjust or adjust each of the enterprise private debentures rate for the second year of respective debenture at the end of the first year by giving a notice to the debenture holders respective. Each of the debenture holders may accordingly at their option to require the Group to redeem the debentures at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining enterprise private debentures will be subject to the interest rate offered by the Group at the end of the first year until the maturity date.

The Directors consider that the carrying amounts of the mid-term debentures and related interest amounting to RMB84,830,000 (31 December 2015: RMB139,860,000) as at 31 December 2016 recognised in the consolidated financial statements approximate to their fair value.

## 37. LONG-TERM CORPORATE BONDS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Long-term corporate bonds | **3,075,350** | 3,057,635 |

The amounts as at 31 December 2016 represented: (i) the issuance of long-term corporate bonds in an aggregate principal amount RMB2,000,000,000 on 6 February 2013 with a term of eight years and a rate of 7.21% per annum. According to the terms and conditions of bonds, the Group has the right to unadjust or adjust the bonds rate for the sixth to eighth year at the end of the fifth year by giving a notice to the bond holders. The bond holders may accordingly at their option to require the Group to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. This long-term corporate bonds were issued through the lead underwriter, HUAXI Securities Co., Ltd (華西證券有限責任公司) to non-specific buyers. This long-term corporate bonds are jointly and severally guaranteed by Tianrui Foundry and Tianrui Travel, two subsidiaries of Tianrui Group. The guarantees have been provided at no cost to the Group. (ii) the issuance of long-term corporate bonds in an aggregate principal amount RMB1,000,000,000 on 29 September 2015 through the lead underwriter, Ping An Securities Company Limited (平安證券有限責任公司), with a term of five years and a rate of 5.95% per annum. According to the terms and conditions of bonds, the Group has the right to unadjust or adjust the bonds rate for the fourth year and fifth year at the end of the third year by giving a notice to the bond holders. The bond holders may accordingly at their option to require the Group to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the third year until the maturity date. (iii) the issuance of long-term corporate bonds in an aggregate principal amount HK$86,500,000 (approximately RMB77,375,000) which including the issuance of first tranche corporate bonds of HK$45,540,000 on 2 December 2014, the second tranche corporate bonds of HK$33,460,000 on 15 July 2015 and the third tranche corporate bonds of HK$7,500,000 on 9 January 2016, with a term of eight years and a rate of 6.50% per annum. This long-term corporate bonds were issued through the lead underwriter, Convoy Investment Service Limited (康宏證券投資服務有限公司), to non-specific buyers.

The Directors consider that the carrying amounts of the long-term corporate bonds and related interest amounting to RMB147,789,000 (31 December 2015: 144,939,000) as at 31 December 2016 recognised in the consolidated financial statements approximate to their fair value.

## 38. OTHER PAYABLES

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Acquisition of mining rights | **12,900** | 12,900 |
| Less: Amount due within one year shown under trade and other payables *(Note 31)* | **(12,900)** | (4,500) |
| | **—** | 8,400 |

The amounts represented the payables for acquisition of mining rights.

Pursuant to the purchase agreement entered into between Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) and Dalian Municipal Bureau of Land and Resources and Housing (大連市國土資源和房屋局) in 2007, Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) acquired mining rights at a consideration of approximately RMB52,068,000 which is repayable by 6 installments between 2007 to 2017 every 2 years. The amount bears interest at progressive rates ranged from 5.87% to 7.83% per annum.

Pursuant to the purchase agreement entered into between Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) and Weihui Municipal Bureau of Geological and Mineral Resources (衛輝市地質礦產局) in 2007, Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) acquired mining rights at a consideration of RMB35,000,000 which is repayable by 8 installments between 2007 to 2015 annually. The amount is interest free. The fair value of the outstanding amount at initial recognition is estimated at an effective interest rate of 6.89% per annum.

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## 39. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised by the Group, and the movements thereon, during the year:

| | Allowance on trade and other receivables | Fair value adjustment arising from acquisition of subsidiaries | Tax losses | Others | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 *(Note)* | RMB'000 |
| At 1 January 2015 | 13,794 | (62,168) | 28,065 | 20,809 | 500 |
| Credit (charge) to profit or loss for the year | 316 | 2,983 | 62,481 | (6,410) | 59,370 |
| At 31 December 2015 | 14,110 | (59,185) | 90,546 | 14,399 | 59,870 |
| Credit (charge) to profit or loss for the year | (14) | 2,766 | 30,211 | (3,877) | 29,086 |
| Acquisition of a subsidiary *(note 50)* | — | (1,481) | — | — | (1,481) |
| At 31 December 2016 | 14,096 | (57,900) | 120,757 | 10,522 | 87,475 |

*Note:* Others mainly represented the deferred tax assets arising from unrealised profits on intragroup transactions, provision for environmental restoration and deferred income in respect of asset-related government grant.

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Deferred tax assets | **154,002** | 115,924 |
| Deferred tax liabilities | **(66,527)** | (56,054) |
| | **87,475** | 59,870 |

At 31 December 2016, the Group has unused tax losses of approximately RMB1,092,856,000 (31 December 2015: RMB830,601,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB483,028,000 (31 December 2015: RMB362,184,000) of such losses.

## 39. DEFERRED TAXATION (Cont'd)

No deferred tax assets has been recognised in respect of the remaining RMB609,828,000 (31 December 2015: RMB468,417,000) due to the unpredictability of future profit streams in respective subsidiaries. The unrecognised tax loss will be expired as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| 2016 | — | 6,933 |
| 2017 | **70,749** | 70,749 |
| 2018 | **173,183** | 173,183 |
| 2019 | **56,692** | 56,692 |
| 2020 | **155,567** | 160,860 |
| 2021 | **153,637** | — |
| | **609,828** | 468,417 |

In addition, the Group has deductible temporary differences of RMB3,748,000 (31 December 2015: RMB18,916,000) as at 31 December 2016. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profit of the PRC subsidiaries amounting to RMB5,291,239,000 as at 31 December 2016 (31 December 2015: RMB4,900,484,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 40. DEFERRED INCOME

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Assets-related government grants | **174,717** | 177,483 |

The assets-related government grants represent the subsidies received by the Group for the purpose of acquiring land use rights to build new production lines in the PRC and acquiring qualified energy conservation equipment. An amount of approximately RMB9,553,000 was released to "other income" during the year ended 31 December 2016 (2015: RMB8,171,000).

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## 41. PROVISION FOR ENVIRONMENTAL RESTORATION

| | Environmental restoration RMB'000 |
|---|---|
| At 1 January 2015 | 18,099 |
| Provision for the year | 2,075 |
| At 31 December 2015 | 20,174 |
| Provision for the year | 1,666 |
| At 31 December 2015 | 21,840 |

According to the regulation issued in 2009 by the Ministry of Land and Resources (國土資源部), the user of a mine should undertake the obligation of environmental restoration. After taking into account the quantity of limestone mined and the timing of mine restoration in future, a provision has been recognised for the costs expected to be incurred for the restoration of the limestone mines. Addition in provision is recognised as cost of sales of the related limestone mined and sold.

## 42. SHARE CAPITAL

### The Company

| | Number of shares | Share capital | |
|---|---|---|---|
| | | HK$'000 | RMB'000 |
| Ordinary share of HK$0.01 each: | | | |
| As at 1 January 2015, 31 December 2015 and 2016 | 10,000,000,000 | 100,000 | 81,070 |
| Issued | | | |
| As at 1 January 2015, 31 December 2015 and 2016 | 2,400,900,000 | 24,009 | 19,505 |

## 43. PLEDGE OF ASSETS

As at the end of the reporting period, the carrying amount of the assets of the Group pledged to secure the bank borrowings granted to the Group is analysed as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | **1,562,461** | 1,111,326 |
| Prepaid lease payments | **498,747** | 114,567 |
| Pledged bank balances | **571,450** | 802,300 |
| | **2,632,658** | 2,028,193 |

Apart from the assets pledged set out above, Tianrui Cement has pledged all of its equity interests in Tianrui Group Guangshan Cement Company Limited (天瑞集團光山水泥有限公司), Tianrui Group Zhengzhou Cement Company Limited (天瑞集團鄭州水泥有限公司) and Tianrui Group Xiaoxian Cement Company Limited (天瑞集團蕭縣水泥有限公司) to secure the short-term US Dollar variable-rate loans amounting to RMB430,336,000 (31 December 2015: RMB402,603,200), pledged all of its equity interests in Haicheng The First Cement Company Limited (海城市第一水泥有限公司) to secure the long-term variable-rate loans amounting to RMB45,000,000 (31 December 2015: RMB60,000,000) as at 31 December 2016, and pledged all of its equity interests in Tianrui Group Yuzhou Cement Company Limited (天瑞集團禹州水泥有限公司), Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司), Tianrui Group Nanzhao Cement Company Limited (天瑞集團南召水泥有限公司), Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州水泥有限公司), Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司), Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司), Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司), Tianrui Group Xuchang Cement Company Limited (天瑞集團許昌水泥有限公司), and Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) to secure the short-term variable-rate loans amounting to RMB550,000,000 (31 December 2015: Nil).

In addition, bills receivables (including those issued among subsidiaries of the Group for intra-group transactions) amounted to RMB667,458,000 as at 31 December 2016 (31 December 2015: RMB602,650,000) were discounted to banks to obtain borrowings. Bills receivables (including those issued among subsidiaries of the Group for intra-group transactions) with carrying amount of RMB3,149,498,000 as at 31 December 2016 (31 December 2015: RMB4,567,987,000) were endorsed to suppliers on a full recourse basis. Details are set out in Notes 27 and 33.

## 44. CAPITAL COMMITMENTS

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Capital expenditure of the Group in respect of acquisition property, plant and equipment — contracted for but not provided in the consolidated financial statements | **488,832** | 458,297 |

## 45. OPERATING LEASE COMMITMENTS

### The Group as lessee

The rental payment paid for the year ended 31 December 2016 amounted to approximately RMB17,570,000 (2015: RMB19,561,000) are paid for certain of its land and office properties.

As at 31 December 2016, the Group had commitments for future minimum lease payments in respect of rented land and office properties which fall due as follows:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Within one year | **17,133** | 17,015 |
| In the second to fifth year inclusive | **2,958** | 13,215 |
| Over fifth year | **5,748** | 6,094 |
| | **25,839** | 36,324 |

Operating lease payments represent rentals payable by the Group for certain of its land and office properties. Leases are negotiated for an average terms of between 1 to 17 years and rental are fixed throughout the lease term.

### The Group as lessor

The rental income earned for the year ended 31 December 2016 amounted to approximately RMB3,583,000 (2015: RMB377,000) are generated from rental of certain plant and machinery.

As at 31 December 2016, the Group had contracted with tenants for the following future minimum lease payments:

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Within one year | **561** | 785 |

## 46. RETIREMENT BENEFIT SCHEMES

The PRC employees of the Group are members of state-managed retirement benefit schemes operated by the local governments. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit schemes to fund the benefits. The retirement benefit cost charged to profit or loss for the year ended 31 December 2016, amounts to RMB29,484,000 (2015: RMB30,124,000).

## 47. RELATED PARTY DISCLOSURES

**(a)** Apart from the amount due from an associate as disclosed in Note 28, and guarantees provided by the Group to related parties and guarantees provided by the related parties to the Group as disclosed in Notes 35 and 37, options granted by Tianrui Group as disclosed in Note 25, during the year, the Group had the following significant transactions with the related parties.

| Nature of transaction | Name of related company | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|---|
| Purchase of goods | Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司) | i | **163,568** | 114,027 |
| Office rental expenses | Tianrui Group | ii | **1,800** | 1,800 |
| Sales of goods | Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司) | i | **—** | 8,857 |

The Group provided financial guarantee to banks in respect of bank facilities of Tianrui Foundry, Tianrui Coking, Tianrui Travel and Tianrui Group for a period of 3 years, 7 years, 10 years and 2 year respectively. As at 31 December 2016, the bank facilities utilised by Tianrui Foundry, Tianrui Coking, Tianrui Travel and Tianrui Group amounted to RMB210,000,000 (31 December 2015: Nil), RMB217,000,000 (31 December 2015: RMB337,000,000), RMB660,000,000 (31 December 2015: RMB270,650,000) and RMB20,000,000 (31 December 2015: RMB40,000,000) respectively (see note 35). Tianrui Foundry, Tianrui Coking and Tianrui Travel are subsidiaries of Tianrui Group.

*Notes:*

i. An associate of the Group;

ii. Tianrui Group is controlled by Mr. Li Liufa, a non-executive director of the Company, indirectly held 39.57% of shares of the Company as at 31 December 2016 and 2015.

## 47. RELATED PARTY DISCLOSURES (Cont'd)

### (b) Remuneration to key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly and indirectly including the Directors. The key management personnel compensations are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Short-term benefits | **4,565** | 6,092 |
| Retirement benefits | **63** | 70 |
| | **4,628** | 6,162 |

### (c) Guarantees

Except as disclosed in Note 37, as at 31 December 2016, bank borrowings amounting to RMB1,930,094,000 (31 December 2015: Nil) and other borrowings amounting to RMB305,590,000 (31 December 2015: Nil) were guaranteed by Tianrui Group, Mr. Li Liufa and his spouse. Other borrowings amounting to RMB300,000,000 (31 December 2015: Nil) were guaranteed by Tianrui Group, Tianrui Foundry, Mr. Li Liufa and his spouse. Bank borrowing amounting to RMB40,000,000 (31 December 2015: Nil) and other borrowings amounting to RMB184,736,000 (31 December 2015: RMB100,000,000) were guaranteed by Mr. Li Liufa and his spouse.

## 48. CAPITAL RISK MANAGEMENT

The management manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the short term debentures, borrowings, mid-term debentures, long-term corporate bonds (details refer to Notes 32, 33, 36 and 37), and equity attributable to owners of the Company, comprising share capital and reserves and retained earnings.

The management reviews the capital structure on a yearly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

## 49. FINANCIAL INSTRUMENTS

### 49.1 Categories of financial instruments

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including pledged bank balances and cash and bank balances) | **6,301,747** | 8,265,695 |
| Derivative financial assets | **761,065** | 678,809 |
| Financial liabilities | | |
| Amortised cost | **15,668,774** | 18,964,240 |
| Financial guarantee contract | **26,875** | 10,637 |

### 49.2 Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, pledged bank balances, cash and bank balances, derivative financial assets, trade and other payables, short term debentures, mid-term debentures, borrowings, obligations under finance leases and long-term corporate bonds. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Interest rate risk***

The Group is exposed to fair value interest rate risk in relation to short term debentures, fixed-rate borrowings, obligations under finance leases, mid-term debentures, long-term corporate bonds and payables for mining rights (see Notes 32, 33, 34, 36, 37 and 38 for details).

Besides, the Group is also exposed to cash flow interest rate risk in relation to pledged bank balances, bank balances and variable-rate borrowings (see Notes 29, 30 and 33 for details).

The Group closely monitors the interest rate trend and aims to lower the effective interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Interest Rate announced by the People's Bank of China and LIBOR.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

### 49.2 Financial risk management objectives and policies (Cont'd)

***Interest rate risk (Cont'd)***

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. No sensitivity analysis has been presented for bank balances as the Directors consider that the fluctuation in interest rates on bank balances is minimal. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis points increase or decrease in LIBOR and Benchmark Interest Rate, as appropriate, represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year would be decreased/increased by approximately RMB2,104,000 (2015: decreased/increased RMB3,191,000) and the amount of borrowing costs capitalised in respect of the Group's qualifying assets would be increased/decreased by approximately RMB151,000 For the year ended 31 December 2016 (2015: RMB396,000).

***Currency risk***

The Group has certain pledged bank balances and other receivables denominated in Hong Kong Dollar ("HK Dollar") and borrowings denominated in United States Dollar ("US Dollar"), hence exposures to exchange rate fluctuation arises. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management monitors the HK Dollar and US Dollar exposure closely and will consider hedging significant currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of the year are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Assets | | |
| HK Dollar | **11,276** | 10,437 |
| US Dollar | **825** | 154 |
| | **12,101** | 10,591 |
| Liabilities | | |
| HK Dollar | **82,384** | 66,185 |
| US Dollar | **738,636** | 704,211 |
| | **821,020** | 770,396 |

## 49. FINANCIAL INSTRUMENTS (Cont'd)

### 49.2 Financial risk management objectives and policies (Cont'd)

**_Currency risk (Cont'd)_**

*Sensitivity analysis*

The Group is mainly exposed to the effects of fluctuation in RMB against HK Dollar and US Dollar.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase or decrease in RMB against HK Dollar and US Dollar. The percentage represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items, and adjust its translation at the end of the reporting period for 5% (2015: 5%) change in foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2015: 5%) against HK Dollar and US Dollar. For a 5% (2015: 5%) weakening of RMB against HK Dollar and US Dollar, there would be an equal and opposite impact on the profit and the balances below would be negative.

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Post-tax profit for the year | **35,512** | 32,958 |

**_Credit risk_**

As at 31 December 2016, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group disclosed in Note 51.

In order to minimise the credit risk arising from the respective recognised financial assets as stated in the consolidated statement of financial position, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

In order to minimize the credit risk arising from the contingent liabilities in relation to financial guarantee issued by the Group, a special committee has been established by the Group to review and approve the guarantee to be issued. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

### 49.2 Financial risk management objectives and policies (Cont'd)

#### *Credit risk (Cont'd)*

The credit risk on pledged bank balances and bank balances are limited because the counterparties are reputable banks or a financial institution with high credit ratings assigned by international credit-rating agencies.

Other than the above, the Group has no other significant concentration of credit risk with exposure spread over a large number of counterparties and customers.

#### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings. When there is non-compliance with loan covenants, the management would liaise with lenders and follow up actions were taken promptly as appropriate to ensure sufficient liquidity is available if the lender demanded immediate repayment.

The Group has net current liabilities as at 31 December 2016, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the Directors regularly monitors the operating cash flows of the Group to meet its liquidity requirement in the short and long term. The Group has unused banking facilities of RMB1,546,400,000 in aggregate available which have been obtained before 31 December 2016. The Directors are of the view that the Group is able to identify investors and issue the debentures of RMB3,000,000,000 in the year 2017 (Note 2).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

### 49.2 Financial risk management objectives and policies (Cont'd)

#### *Liquidity risk (Cont'd)*

The tables include both interest and principal cash flows. To the extent that interest flows are variable-rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

| | Weighted average interest rate | On demand or 0–30 days | 31 to 180 days | 181 to 365 days | 1–2 years | 2–3 years | Over 3 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 31 December 2016** | | | | | | | | | |
| Trade and other payables | | 662,441 | 1,364,142 | 1,300,180 | — | — | — | 3,326,763 | 3,326,763 |
| Borrowings | | | | | | | | | |
| — fixed-rate | 5.57 | 1,071,960 | 2,188,074 | 1,686,934 | 460,425 | 55,084 | — | 5,462,477 | 5,267,380 |
| — variable-rate | 4.45 | 313,233 | 115,426 | 750,925 | 667 | 15,334 | — | 1,195,585 | 1,182,337 |
| Other payables — fixed rate | | — | 12,900 | — | — | — | — | 12,900 | 12,900 |
| Mid-term debentures | 7.42 | 815 | — | 2,444,744 | 542,500 | — | — | 2,988,059 | 2,775,183 |
| Long-term corporate bonds | 6.71 | — | 12,838 | 43,525 | 3,054,338 | — | 116,162 | 3,226,863 | 3,075,350 |
| Obligations under finance leases | 4.99 | 29,541 | — | — | — | — | — | 29,541 | 28,861 |
| | | 2,077,990 | 3,693,380 | 6,226,308 | 4,057,930 | 70,418 | 116,162 | 16,242,188 | 15,668,774 |
| Financial guarantee liabilities | | 1,542,000 | — | — | — | — | — | 1,542,000 | 26,875 |
| **As at 31 December 2015** | | | | | | | | | |
| Trade and other payables | — | 1,427,781 | 1,066,653 | 1,349,413 | — | — | — | 3,843,847 | 3,843,847 |
| Borrowings | | | | | | | | | |
| — fixed-rate | 5.16 | 170,000 | 1,427,386 | 1,090,625 | — | — | — | 2,688,011 | 2,629,212 |
| — variable-rate | 4.87 | 200,000 | 139,174 | 1,417,651 | 134,239 | 16,893 | 17,715 | 1,925,672 | 1,860,211 |
| Other payables — fixed rate | 7.3 | — | 4,500 | — | 9,336 | — | — | 13,836 | 12,900 |
| Short term debentures | 6.56 | 503,333 | 2,845,504 | 530,000 | — | — | — | 3,878,837 | 3,792,019 |
| Mid-term debentures | 8.06 | — | 432,247 | 1,083,543 | 2,048,333 | 542,500 | — | 4,106,623 | 3,684,171 |
| Long-term corporate bonds | 6.78 | 12,017 | — | 44,625 | 203,700 | 3,203,700 | 96,299 | 3,560,341 | 3,057,635 |
| Obligations under finance leases | 5.51 | 29,465 | — | 29,665 | 29,640 | — | — | 88,770 | 84,245 |
| | | 2,342,596 | 5,915,464 | 5,545,522 | 2,425,248 | 3,763,093 | 114,014 | 20,105,937 | 18,964,240 |
| Financial guarantee liabilities | | 1,522,000 | — | — | — | — | — | 1,522,000 | 10,637 |

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

### 49.3 Fair value measurements

#### (i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The Group's derivatives are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of derivatives are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorized (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Financial assets | Fair value as at (RMB'000) 31 December 2016 | 31 December 2015 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| The option granted by the shareholder to acquire Henan Tongli classified as derivative financial assets *(see Note 25)* | **Assets 705,602** | Assets 467,505 | Level 3 | The binomial option pricing model. The key inputs are stock price volatility rate, spot price, exercise price, risk free rate, dividend yield, exit rate, exercise multiples, time to maturity and vesting date. | Stock price volatility rate | note i |
| The option of granted by the shareholder to acquire Xindeng Cement classified as derivative financial assets *(see Note 25)* | **Assets 55,463** | Assets 211,304 | Level 3 | The binomial option pricing model. The key inputs are stock price volatility rate, spot price, exercise price, risk free rate, dividend yield, exit rate, exercise multiples, time to maturity and vesting date. | Stock price and stock price volatility rate | note ii |

*Notes:*

i A slight increase in the stock price volatility rate used in isolation would result in an increase in the fair value. A 5% increase in the stock price volatility rate, holding all other variables constant, would increase the carrying amount of the option by RMB3,018,000 (2015: RMB13,046,000). A 5% decrease in the stock price volatility rate, holding all other variables constant, would decrease the carrying amount of the option by RMB2,668,000 (2015: RMB12,945,000).

ii A slight increase in the stock price and stock price volatility rate used in isolation would result in an increase in the fair value. A 5% increase in the stock price and stock price volatility rate, holding all other variables constant, would increase the carrying amount of the option by RMB16,571,000 (2015: RMB21,841,000) and RMB1,011,000 (2015: RMB7,189,000) respectively. A 5% decrease in the stock price and stock price volatility rate, holding all other variables constant, would decrease the carrying amount of the option by RMB15,320,000 (2015: RMB21,100,000) and RMB872,000 (2015: RMB6,795,000) respectively.

There is no transfer between level 2 and level 3 during the current and prior years.

## 49. FINANCIAL INSTRUMENTS (Cont'd)

### 49.3 Fair value measurements (Cont'd)

#### *(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Cont'd)*

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Information about the valuation techniques and inputs used in determining the fair value of assets are disclosed above.

*Reconciliation of Level 3 fair value measurements*

As detailed in Note 25, the options granted by Tianrui Group are classified as financial assets at FVTPL. The options were measured at fair value on Level 3 fair value measurement.

The following are reconciliation of the options:

| | RMB'000 |
|---|---|
| FAIR VALUE: | |
| Initial recognition | 229,240 |
| Net increase in fair value recognised in profit and loss | 449,569 |
| As at 31 December 2015 | 678,809 |
| Net increase in fair value recognised in profit and loss | 82,256 |
| As at 31 December 2016 | 761,065 |

#### *(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)*

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except as disclosed in Notes 33, 36 and 37, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

## 50. ACQUISITION OF A SUBSIDIARY IN YEAR 2016

On 6 January 2016, the Group acquired 100% of the equity interest of Panjin Jinrun Cement Company Limited (盤錦金潤水泥有限公司) ("Panjin Cement") from an independent third party for a consideration of RMB38,792,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB3,178,000. Panjin Cement is engaged in the manufacture and sale of cement.

| | **Panjin Cement** |
|---|---|
| | RMB'000 |
| **Consideration transferred:** | |
| Total consideration satisfied by | |
| Deposit paid in prior year | 38,792 |
| | 38,792 |
| **Assets acquired and liabilities recognised at the date of acquisition are as follows:** | |
| Net assets acquired: | |
| Property, plant and equipment | 24,308 |
| Prepaid lease payments | 8,556 |
| Inventories | 7,742 |
| Trade and other receivables | 7,134 |
| Cash and bank balances | 5,332 |
| Trade and other payables | (15,977) |
| Deferred tax liabilities | (1,481) |
| | 35,614 |
| **Goodwill arising on acquisition:** | |
| Consideration transferred | 38,792 |
| Less: net assets acquired | 35,614 |
| Goodwill | 3,178 |
| **Net cash inflow on acquisition:** | |
| Net cash inflow arising on acquisition | |
| Cash and cash equivalents acquired | 5,332 |

## 50. ACQUISITION OF A SUBSIDIARY IN YEAR 2016 (Cont'd)

The fair value of trade and other receivables at the date of acquisition amounted to RMB7,134,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB7,134,000 at the date of acquisition.

Included in the profit for the year is a profit of RMB0.53 million attributable to the additional business generated by the acquired entity.

Revenue for the year includes RMB57 million generated from the acquired entity. Had the acquisition been completed on 1 January 2016, total group revenue for the year would have been RMB6,009 million, and profit for the year would have been RMB273 million. The pro forma information is for illustrative purposes only and is 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 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the entity been acquired at the beginning of the year 2016, the Directors have calculated depreciation of property, plant and equipment acquired and amortisation of prepaid lease payments on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

## 51. CONTINGENT LIABILITIES

| | **2016**<br>**RMB'000** | 2015<br>RMB'000 |
|---|---|---|
| Guarantees given to banks in respect of banking facilities granted to: | | |
| Related parties *(Note 35)* | **1,542,000** | 1,472,000 |
| Third party | **—** | 50,000 |
| | **1,542,000** | 1,522,000 |

The management considers the risk of the contingent liabilities and recognised financial guarantee liabilities of RMB26,875,000 (2015: RMB10,637,000) in the consolidated financial statements.

For the year ended 31 December 2016

## 52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

### (a) The Company has the following subsidiaries:

| Name of company | Place and date of incorporation/establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest and voting power 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries** | | | | | |
| Zhong Yuan Cement Company Limited 中原水泥有限公司 | British Virgin Islands 7 April 2010 | US$1 | **100** | 100 | Investment holding |
| China Tianrui (Hong Kong) Company Limited 中國天瑞（香港）有限公司 | Hong Kong 16 April 2010 | US$1 | **100** | 100 | Investment holding |
| Tianrui Group Cement Company Limited 天瑞集團水泥有限公司 | The PRC 28 September 2000 | US$594,052,471 | **100** | 100 | Manufacture and sale of cement and clinker |
| Lushan Xian Antai Cement Company Limited 魯山縣安泰水泥有限公司* | The PRC 16 September 1998 | RMB21,357,000 | **100** | 100 | Manufacture and sale of cement |
| Tianrui Group Ruzhou Cement Company Limited 天瑞集團汝州水泥有限公司* | The PRC 3 December 2002 | RMB180,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Weihui Shi Tianrui Cement Company Limited 衛輝市天瑞水泥有限公司* | The PRC 30 June 2003 | RMB240,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Tianrui Group Zhoukou Cement Company Limited 天瑞集團周口水泥有限公司* | The PRC 10 September 2003 | RMB81,000,000 | **100** | 100 | Manufacture and sale of cement |
| Shangqiu Tianrui Cement Company Limited 商丘天瑞水泥有限公司* | The PRC 9 June 2004 | RMB63,000,000 | **100** | 100 | Manufacture and sale of cement |
| Zhengzhou Tianrui Cement Company Limited 鄭州天瑞水泥有限公司* | The PRC 17 June 2004 | RMB55,000,000 | **100** | 100 | Manufacture and sale of cement |
| Tianrui Group Yuzhou Cement Company Limited 天瑞集团禹州水泥有限公司* | The PRC 4 August 2004 | RMB250,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Dalian Tianrui Cement Company Limited 大連天瑞水泥有限公司* | The PRC 8 December 2004 | RMB350,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Yingkou Tianrui Cement Company Limited 營口天瑞水泥有限公司* | The PRC 4 July 2006 | RMB111,300,000 | **100** | 100 | Manufacture and sale of cement |
| Tianrui Group Nanzhao Cement Company Limited 天瑞集團南召水泥有限公司* | The PRC 23 January2007 | RMB200,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Yuzhou Shi Zhongjin Mining Company Limited 禹州市中錦礦業有限公司* | The PRC 23 April 2007 | RMB1,000,000 | **100** | 100 | Inactive |
| Liaoyang Tianrui Cement Company Limited 遼陽天瑞水泥有限公司* | The PRC 25 April 2007 | RMB213,680,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Tianrui Group Xuchang Cement Company Limited 天瑞集團許昌水泥有限公司* | The PRC 16 August2007 | RMB80,000,000 | **100** | 100 | Manufacture and sale of cement |
| Tianrui Group Guangshan Cement Company Limited 天瑞集團光山水泥有限公司* | The PRC 14 December 2007 | RMB280,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Tianrui Group Zhengzhou Cement Company Limited 天瑞集團鄭州水泥有限公司* | The PRC 23 April 2008 | RMB520,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Tianrui Group Xiaoxian Cement Company Limited 天瑞集團蕭縣水泥有限公司* | The PRC 6 October 2008 | RMB241,958,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Tianrui Group Ningling Cement Company Limited 天瑞集團寧陵水泥有限公司* | The PRC 9 July 2009 | RMB20,000,000 | **100** | 100 | Manufacture and sale of cement |
| Tianjin Tianrui Cement Company Limited 天津天瑞水泥有限公司* | The PRC 5 November 2009 | RMB100,000,000 | **60** | 60 | Manufacture and sale of cement |

## 52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

### (a) The Company has the following subsidiaries: (Cont'd)

| Name of company | Place and date of incorporation/establishment | Issued and fully paid share capital/ registered capital | Proportion of ownership interest and voting power 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|
| **Subsidiaries (Cont'd)** | | | | | |
| Pingdingshan Tianrui Yaodian Cement Company Limited 平頂山天瑞姚電水泥有限公司* | The PRC 17 June 2009 | RMB20,000,000 | **91** | 91 | Manufacture and sale of cement |
| Liaoyang Tianrui Weiqi Cement Company Limited 遼陽天瑞威企水泥有限公司* | The PRC 22 June 2006 | RMB39,000,000 | **100** | 100 | Manufacture and sale of cement |
| Liaoyang Tianrui Chengxing Cement Company Limited 遼陽天瑞誠興水泥有限公司* | The PRC 18 May 2006 | RMB20,000,000 | **70** | 70 | Manufacture and sale of cement |
| Liaoyang Tianrui Liaota Cement Company Limited 遼陽天瑞遼塔水泥有限公司* | The PRC 24 July 2007 | RMB205,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Liaoyang Tianrui Liaodong Cement Company Limited 遼陽天瑞遼東水泥有限公司* | The PRC 28 February 2003 | RMB10,000,000 | **100** | 100 | Manufacture and sale of cement |
| Liaoyang Tianrui Liaota Mining Company Limited 遼陽天瑞遼塔礦業有限公司* | The PRC 22 February 2000 | RMB500,000 | **100** | 100 | Manufacture and sale of cement |
| Dalian Tianrui Jinhaian Cement Company Limited 大連天瑞金海岸水泥有限公司* | The PRC 19 December 2002 | RMB45,000,000 | **100** | 100 | Manufacture and sale of cement |
| Xinyang Tianrui Cement Company Limited 信陽天瑞水泥有限公司* | The PRC 27 December 2000 | RMB18,000,000 | **100** | 70 | Manufacture and sale of cement |
| Haicheng The First Cement Company Limited 海城市第一水泥有限公司* | The PRC 1 April 1999 | RMB100,000,000 | **100** | 100 | Manufacture and sale of cement and clinker |
| Haicheng Tianying Construction Stone Mining Company Limited 海城市天鷹建築石材採掘有限公司* | The PRC 29 June 2012 | RMB150,000 | **100** | 100 | Manufacture and sale of stone material |
| Shenyang Tiger Cement Company Limited 瀋陽老虎水泥有限公司* | The PRC 14 December 2001 | RMB20,330,000 | **60** | 60 | Manufacture and sale of cement |
| Zhuanghe Tianrui Cement Company Limited 莊河天瑞水泥有限公司* | The PRC 7 August 2002 | RMB20,000,000 | **100** | 100 | Manufacture and sale of cement |
| Tianrui Group Technology Company Limited 天瑞集團信息科技有限公司* | The PRC 2 February 2015 | RMB3,000,000 | **90** | 90 | Software development, sales and related service |
| Panjin Jinrun Cement Company Limited 盤錦金潤水泥有限公司* | The PRC 18 May 2006 | RMB10,000,000 | **100** | N/A | Manufacture and sale of cement |

*Note:*

* The entities are subsidiaries of Tianrui Cement.

As at 31 December 2016, Tianrui Group Cement Company Limited, one subsidiaries of the Group, issued RMB2.77 billion of mid-term debentures and RMB3 billion of long-term corporate bonds.

## 52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

### (a) The Company has the following subsidiaries: (Cont'd)

As at 31 December 2015, two subsidiaries of the Group issued debt securities, which including (i) Tianrui Group Cement Company Limited issued RMB3.8 billion of short term debentures, RMB3.45 billion of mid-term debentures, and RMB3 billion of long-term corporate bonds; (ii) Yingkou Tianrui Cement Company Limited issued RMB250 millions of mid-term debentures.

### (b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation and operation | Proportion of ownership interests and voting rights held by non-controlling interests | | Loss allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **31/12/2016** | 31/12/2015 | **2016<br>RMB'000** | 2015<br>RMB'000 | **31/12/2016<br>RMB'000** | 31/12/2015<br>RMB'000 |
| Tianjin Tianrui Cement Company Limited 天津天瑞水泥有限公司 | The PRC | **40%** | 40% | **(42,647)** | (22,729) | **(147,212)** | (104,565) |
| Individually immaterial subsidiaries with non-controlling interests | | | | | | **28,530** | 52,343 |
| | | | | | | **(118,682)** | (52,222) |

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

For the year ended 31 December 2016

## 52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

### (b) Details of non-wholly owned subsidiaries that have material non-controlling interests (Cont'd)

Tianjin Tianrui Cement Company Limited:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Current assets | **38,792** | 29,750 |
| Non-current assets | **474,002** | 581,897 |
| Current liabilities | **(876,871)** | (697,728) |
| Non-current liabilities | **(3,012)** | (119,513) |
| Accumulated deficits | **(367,089)** | (260,472) |
| Revenue | **113,238** | 136,343 |
| Expenses | **219,855** | 193,166 |
| Loss and total comprehensive expense for the year | **(106,617)** | (56,823) |
| Net cash (outflow) inflow from operating activities | **(28,523)** | 19,552 |
| Net cash from (used in) investing activities | **16,394** | (1,293) |
| Net cash from (used in) financing activities | **11,212** | (10,009) |
| Net cash (outflow) inflow | **(917)** | 8,250 |

For the year ended 31 December 2016

## 53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Statement of financial position of the Company at the end of the reporting period includes:

| | At 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| NON-CURRENT ASSET | | |
| Investment in a subsidiary *(note)* | **1,925,778** | 1,925,778 |
| Equipment | **315** | 295 |
| Deposits paid for acquiring mining rights | **342,889** | 342,889 |
| Derivative financial assets | **761,065** | 678,809 |
| TOTAL NON-CURRENT ASSETS | **3,030,047** | 2,947,771 |
| CURRENT ASSET | | |
| Other receivables | **1,139** | 371 |
| Cash and bank balances | **916** | 127 |
| TOTAL CURRENT ASSETS | **2,055** | 498 |
| CURRENT LIABILITIES | | |
| Borrowings — due within one year | **306,795** | 301,607 |
| Amounts due to a subsidiary | **1,239,107** | 1,214,994 |
| TOTAL CURRENT LIABILITIES | **1,545,902** | 1,516,601 |
| NET CURRENT LIABILITIES | **(1,543,847)** | (1,516,103) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **1,486,200** | 1,431,668 |
| CAPITAL AND RESERVES | | |
| Share capital *(Note 42)* | **19,505** | 19,505 |
| Reserves | **1,389,320** | 1,345,978 |
| TOTAL EQUITY | **1,408,825** | 1,365,483 |
| NON-CURRENT LIABILITIES | | |
| Long-term corporate bonds | **77,375** | 66,185 |
| NON-CURRENT LIABILITIES | **77,375** | 66,185 |
| Total | **1,486,200** | 1,431,668 |

*Note:*

As at 31 December 2016, the Company's balance of investment in a subsidiary represents its investment cost.

## 53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

### Movement in reserves

| | Share premium RMB'000 | Other reserve RMB'000 | Accumulated (deficits) earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2015 | 1,275,536 | — | (73,130) | 1,202,406 |
| Profit and total comprehensive income for the year | — | — | 418,521 | 418,521 |
| Transfer | (1,270,896) | — | 1,270,896 | — |
| Dividends distribution | — | — | (504,189) | (504,189) |
| Options granted by the shareholder *(Note 25)* | — | 229,240 | — | 229,240 |
| At 31 December 2015 | 4,640 | 229,240 | 1,112,098 | 1,345,978 |
| Profit and total comprehensive income for the year | — | — | 43,342 | 43,342 |
| At 31 December 2016 | 4,640 | 229,240 | 1,155,440 | 1,389,320 |

## 54. EVENT AFTER THE REPORTING PERIOD

On 9 February 2017, Board committee consented that Tianrui Group could dispose of total 15.03% equity interests of Henan Tongli which are under the call option granted to the Group as disclosed in Note 25, subject to the condition that if the equity interests were disposed, the related gains from the disposal of the equity interests should be compensated to the Group.

Up to the date of approval for issuance of the consolidated financial statements, Tianrui Group disposed of 10.37% equity interests of Henan Tongli. The carrying amount of the options in respect of the equity interests of Henan Tongli disposed amounted to RMB469,358,000 as at 31 December 2016. Tianrui Group's equity interests of Henan Tongli decreased to 4.66% subsequent to the disposals with corresponding reduction in the Group's call option relating to Henan Tongli. The financial impacts of the above disposal on the Group's financial statements for the year ending 31 December 2017, including derecognition of options relating to the interests disposed and additional gains resulting from increase in fair value from reporting date till the dates of disposals, were still in the process of review and subject to further verification by the Group.

# Financial Summary

## FINANCIAL SUMMARY — IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

### CONSOLIDATED RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **6,008,605** | 6,195,093 | 8,950,286 | 8,661,166 | 7,590,897 |
| Profit before tax | **351,635** | 312,526 | 752,753 | 729,323 | 1,027,051 |
| Income tax expense | **(102,065)** | (29,021) | (212,635) | (246,278) | (264,262) |
| Profit for the year | **249,570** | 283,505 | 540,118 | 483,045 | 762,789 |
| Attributable to: | | | | | |
| Owners of the Company | **295,812** | 313,079 | 564,938 | 558,955 | 783,393 |
| Non-controlling interests | **(46,242)** | (29,574) | (24,820) | (75,910) | (20,604) |
| | **249,570** | 283,505 | 540,118 | 483,045 | 762,789 |

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **24,116,401** | 27,090,642 | 24,663,875 | 21,818,248 | 18,840,296 |
| Total liabilities | **(16,476,711)** | (19,672,581) | (17,250,563) | (14,947,747) | (12,496,836) |
| Total equity | **7,639,690** | 7,418,061 | 7,413,312 | 6,870,501 | 6,343,460 |
| Attributable to: | | | | | |
| Owners of the Group | **7,758,372** | 7,470,283 | 7,435,960 | 6,873,809 | 6,323,564 |
| Non-controlling interests | **(118,682)** | (52,222) | (22,648) | (3,308) | 19,896 |
| | **7,639,690** | 7,418,061 | 7,413,312 | 6,870,501 | 6,343,460 |