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

2018 ANNUAL REPORT

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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

Ms. Li Fengluan (appointed on 18 January 2018)
Mr. Ding Jifeng
Mr. Xu Wuxue
Mr. Li Jiangming

NON-EXECUTIVE DIRECTORS

Mr. Li Heping (resigned on 18 January 2018)
Mr. Yang Yongzheng (resigned on 15 June 2018)

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. Li Liufa (appointed on 15 June 2018)
Mr. Wang Ping
Mr. Yang Yongzheng (resigned on 15 June 2018)

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
Shanghai Pudong Development Bank, Zhengzhou Branch

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 63 Guangcheng East Road
Ruzhou City
Henan Province
PRC

PLACE OF BUSINESS IN HONG KONG

Room 2005A, 20/F
Lippo Centre Tower 2
89 Queensway
Admiralty, Hong Kong

Corporate Information

COMPANY WEBSITE

http://www.trcement.com

JOINT COMPANY SECRETARIES

Mr. Li Jiangming
Ms. Ng Ching Mei

AUTHORIZED REPRESENTATIVES

Mr. Li Jiangming
Ms. Ng Ching Mei

CAYMAN ISLANDS SHARE REGISTRAR AND SHARE TRANSFER AGENT

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111
Cayman Islands

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS

As to Hong Kong law

Sidley Austin
39/F, Two International Finance Centre
Central, Hong Kong

As to PRC law

DeHeng Law Offices
12th Floor, Tower B, Focus Place
No. 19 Financial Street
Xicheng District
Beijing 100033
PRC

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, 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 2018, 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.

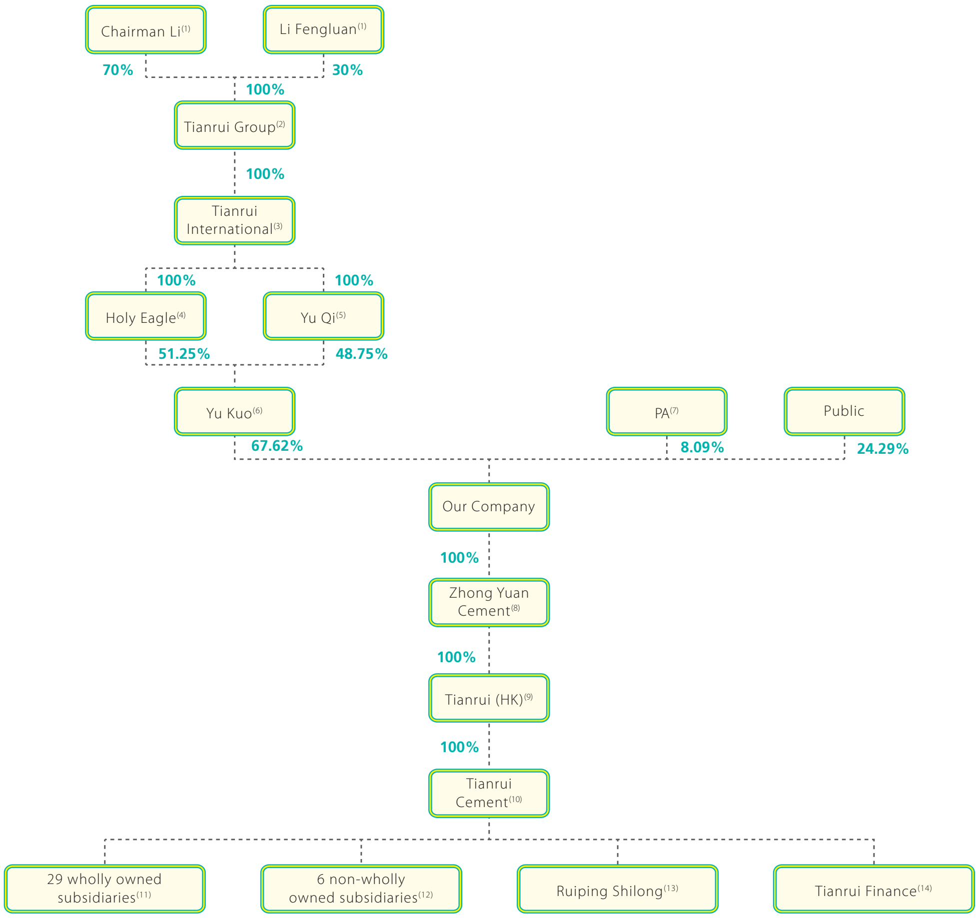
Standardized management and brand advantage. The Group has adopted a management model in line with international standards. The timely technical support provided by our professional technology team to our management team has laid down the foundation of our product quality and operation safety. Our Group 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.

Company Profile

I. CORPORATE STRUCTURE

As of 31 December 2018, 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) "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 Ms. Li Fengluan.

(3) "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.

(4) "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.

(5) "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.

(6) "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.

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

(8) "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.

(9) "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.

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

(11) The 29 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 Limited (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 Cement"), 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"), Panjin Jinrun Cement Company Limited (盤錦金潤水泥有限公司) ("Panjin Cement"), Xinyang Tianrui Cement Company Limited (信陽天瑞水泥有限公司, "Xinyang Cement"), Henan Yongan Cement Company Limited (河南永安水泥有限責任公司, "Yongan Cement") and Zhong Yuan Tianrui Power Company Limited (中原天瑞電力有限公司, "Tianrui Power").

(12) 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; 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; Tianrui Xindeng Zhengzhou Cement Company Limited (天瑞新登鄭州水泥有限公司, "Xindeng Cement"), the other shareholder is Zhengzhou Xindeng Enterprise Group Company Limited (鄭州新登企業集團有限公司) which holds its 45% 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.

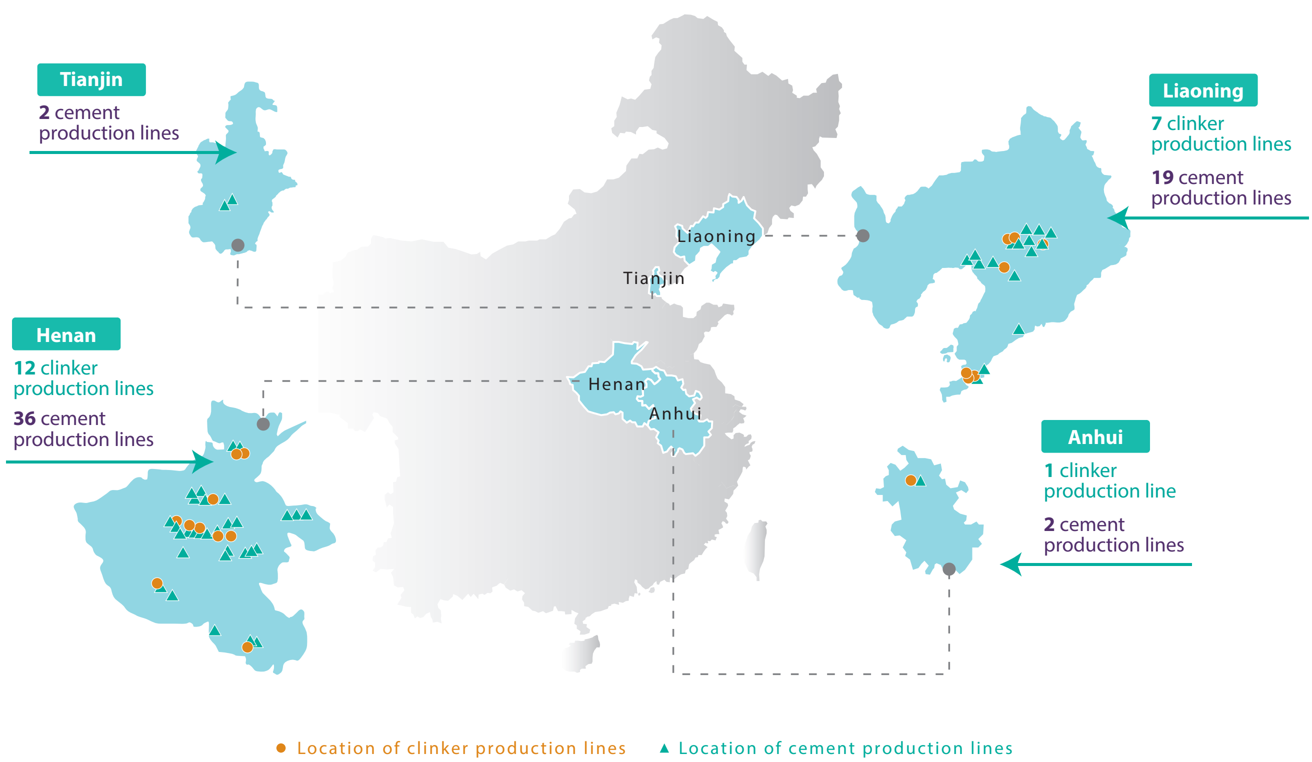
(13) "Ruiping Shilong" refers to Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司), a company established in the PRC with limited liability, its 40% equity interest is held by Tianrui Cement and the other shareholder, Pingdingshan Ruiping Coal & Electricity Company Limited (平頂山市瑞平煤電有限公司 ("Ruiping Power")), is holding its 60% equity interest. Ruiping Power is held by Tianrui Group Foundry Company Limited (天瑞集團鑄造有限公司) ("Tianrui Foundry") (indirectly and jointly wholly-owned by Chairman Li and Ms. Li Fengluan (Chairman Li's spouse)) as to 40% and by an Independent Third Party as to 60%.

(14) "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 25.5% equity interest is held by the Company and 74.5% 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 2018, the Group had 20 clinker production lines and 59 cement grinder production lines with a total annual production capacity of about 28.4 (2017: 28.4) million tonnes of clinker and 56.7 (2017: 55.7) million tonnes of cement, respectively. Of such total annual production capacity, Henan region (including Anhui) had a cement production capacity of 37.6 million tonnes and a clinker production capacity of 20.0 million tonnes, and Liaoning region (including Tianjin) had a cement production capacity of 19.1 million tonnes and a clinker production capacity of 8.4 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 29.6 million tonnes of clinker and 56.7 million tonnes of cement as of 31 December 2018. 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		
	2018 **RMB'000**	2017 RMB'000	Percentage of Change (%)
Revenue	**10,060,647**	8,420,551	19.5%
Gross profit	**3,273,488**	2,396,894	36.6%
EBITDA	**3,844,697**	3,334,681	15.3%
Profit	**1,251,810**	992,770	26.1%
Of which: Profit attributable to owners of the Company	**1,212,547**	1,001,764	21.0%
Basic earnings per share (RMB)*	**0.41**	0.37	10.8%

* The calculation basis was different from previous year.

	As at 31 December		
	2018 **RMB'000**	2017 RMB'000	Percentage of Change (%)
Total assets	**28,553,706**	25,904,081	10.2%
Of which: Current assets	**12,300,677**	10,661,688	15.4%
Total liabilities	**17,474,586**	15,968,310	9.4%
Of which: Current liabilities	**12,571,661**	14,440,872	−12.9%
Total equity	**11,079,120**	9,935,771	11.5%
Of which: Equity attributable to owners of the Company	**11,017,674**	9,820,855	12.2%

Management Discussion And Analysis

BUSINESS REVIEW

In 2018, the government continued to implement supply-side structural reforms, eliminating outdated production capacity, increasing industry concentration, and strictly implementing the policies for environmentally-sustained production. The cement industry promoted alternative production arrangements, strengthened the self-regulation of the industry, and prevented unfair competition. In terms of market demand, there is an increase in the new construction area of real estate and construction of rural poverty alleviation projects throughout the Year. Thus, the total demand for cement in the country remained stable. In 2018, the Group further optimized its corporate management, promoted environmental protection standardization, optimized production processes and scientifically allocated inventory and inventory cycles so as to reduce the product costs while increasing the product sales and selling prices. Thus, increase in both sales volume and price can be achieved. This has led to a significant increase in the profit and gross profit margin of the Group's core business.

In 2018, the Group sold approximately 29.4 million tons of cement, an increase of approximately 0.1 million tons or 0.4% compared with approximately 29.3 million tons in 2017, of which, the sales volume of cement in Henan and the northeastern region was approximately 22.3 million tons and approximately 7.1 million tons, respectively, representing a yearly decrease of 0.2 million tons and increase of 0.3 million tons, respectively. In respect of the different types of cement, the Group further optimized the product structure and recorded a significant increase in the sales volume of cement above 42.5 to approximately 23.9 million tons, an increase of 2.5 million tons compared with approximately 21.4 million tons in 2017. Its share in total annual sales volume of cement in 2018 was 81.1%, representing an increase of 8.1% year-over-year. On the other hand, the sales volume of 32.5 cement was approximately 5.5 million tons, a decrease of 2.4 million tons compared with approximately 7.9 million tons in 2017. Its share in total annual sales volume of cement in 2018 was 18.9%, representing a decrease of 8.1% year-over-year. The share of 32.5 cement in the Group's total sales volume continued the downward trend in 2017.

In 2018, the Group sold approximately 2.8 million tons of clinker, an increase of 0.6 million tons or 26.3% compared with approximately 2.2 million tons in 2017, of which, the sales volume of clinker in Henan and the northeastern region was 1.3 million tons and approximately 1.5 million tons, respectively, representing a yearly increase of 0.6 million tons for Henan and the same level as 2017 for the northeastern region.

In 2018, the Group sold approximately 3.2 million tons of aggregate, a decrease of 0.4 million tons or 11.8% compared with approximately 3.6 million tons in 2017.

In 2018, the average selling price of cement of the Group increased from approximately RMB268.7 per ton in 2017 to approximately RMB309.3 per ton in 2018, representing an increase of RMB40.6 per ton or approximately 15.1%, of which, the average selling price of cement in Henan and the northeastern region was approximately RMB319.6 per ton and approximately RMB277.0 per ton, respectively.

In 2018, the average selling price of clinker of the Group was approximately RMB289.2 per ton, an increase of RMB41.2 per ton or 16.6% compared with approximately RMB248.0 per ton in 2017, of which, the average selling price of clinker in Henan and the northeastern region was RMB300.0 per ton and RMB279.2 per ton, respectively.

In 2018, the average selling price of aggregate of the Group was approximately RMB46.4 per ton, an increase of RMB9.7 per ton or 26.3% compared with approximately RMB36.7 per ton in 2017.

In 2018, due to the increase in both the sales volume and the selling prices of products, the revenue of the Group was RMB10,060.6 million, an increase of RMB1,640.0 million or 19.5% compared with approximately RMB8,420.6 million in 2017.

In 2018, the Group continued to enhance production efficiency and the level of management through the further application of informatized and digitalized technology. With the same conditions of production and scale of sales, the number of employees of the Group decreased by 357 or 4.6% compared with 2017.

In 2018, the residual heat power generation of the Group was 683.9 million kW.h, an increase of 10.3 million kW.h compared with the same period last year. The average comprehensive power consumption of clinker was 56.9kW.h/t, a decrease of 0.3kW.h/t compared with approximately 57.2kW.h/t in the same period last year.

In 2018, gross profit margin of the Group was approximately 32.5%, an increase of 4.0 percentage points compared with 2017. Profit before taxation of the Group was approximately RMB1,742.6 million, an increase of RMB388.6 million or 28.7% compared with approximately RMB1,354.0 million in 2017. Excluding the impact of the approximately RMB6.1 million (2017: approximately RMB451.3 million) gains on fair value changes of derivative financial assets, the profit before taxation was approximately RMB1,736.5 million, which increased by RMB833.8 million or 92.4% as compared to approximately RMB902.7 million in 2017.

In 2018, the Group comprehensively intensified the greening transformation measures. Through the transformation, all of these production lines have reached the standard of particulate matter emission by reducing the figure of 20mg in 2017 to less than 10mg. Besides, all the clinker production lines have been equipped with denitration system and bag filter so that the emission concentrations of sulfur dioxide, nitrogen oxides and particulate matter were lower than the national pollutant discharge standard limit value.

In 2018, the headquarter and all subsidiaries of the Group has passed the “four-in-one” certification of quality, environment, occupational health and safety management system and products, and all clinker production lines have passed the energy management system certification.

In 2018, Pengyuan Credit Rating Co., Ltd. carried out follow-up rating for Tianrui Cement Group Company Limited, a subsidiary of the Company, and maintained its original rating of AA+ and expected a stable prospect.

BUSINESS ENVIRONMENT

According to the National Bureau of Statistics, China's GDP grew by 6.6% in 2018, ranking first among the top five economies in the world. The growth rate has been running in the range of 6.4%–7.0% for 16 consecutive quarters, and the stability and toughness of economic operations have been significantly enhanced.

In 2018, China's investment in fixed assets (excluding rural households) grew by 5.9% year-on-year, representing a decrease of 1.3 percentage points over last year. Investment in infrastructure (excluding electricity, heat, gas and water production and supply) increased by 3.8% yearly, showing that the infrastructure investment is running low. Investment in real estate development rose by 9.5% yearly, representing an increase of 2.5 percentage points over last year while the real estate new construction area increased by 17.2% yearly, and the growth rate was 10.2 percentage points higher than last year. The increase in the investment in real estate and the new construction area of real estate has offset the decline in cement demand caused by the decline in fixed asset investment growth and the slowdown in infrastructure growth, stabilizing the demand for the cement industry.

According to the Henan Provincial Bureau of Statistics, the GDP of Henan Province in 2018 increased by 7.6% as compared with the previous year, higher than the national average level by 1.0 percentage points; investment in fixed assets increased by 8.1%, higher than the national average level by 2.2 percentage points; investment in infrastructure increased by 18.5%; investment in real estate development decreased by 1.1%, lower than the national average level by 10.6 percentage points. The growth in investment in fixed assets, especially for the rise in investment in infrastructure, has offset the decline in investment in real estate development, thereby stabilizing the overall demand for cement in the region. According to the statistics of the Liaoning Provincial Bureau of Statistics, the GDP of Liaoning Province in 2018 increased by 5.7% over the previous year, lower than the national average level by 0.9 percentage points; investment in fixed assets increased by 3.7%, lower than the national average level by 2.2 percentage points; investment in real estate development rose by 13.5%, higher than the national average level by 4.0 percentage points. The growth of investment in real estate development offset the shortage of investment in fixed assets, which made the overall demand for cement in the region stable with slight decline.

CEMENT INDUSTRY

In 2018, the cement industry implemented a series of policies with regard to the government's supply-side reform and environmental protection and launched measures such as energy conservation, emission reduction, staggering peak production, and comprehensive mine remediation. A number of backward production capacities were shut down, thereby the industry concentration further increased. The self-regulation of the industry has been significantly enhanced and the supply and demand in the cement market has been significantly improved. Therefore, the overall inventory of the industry has been the lowest since 2015 and the cement price has continued to rise during the year with a significant increase in overall profit of the industry. According to the relevant data of China Cement Industry Association, the cement industry achieved a profit of RMB154.6 billion in 2018, increased 114% yearly and the total profit hit a record high.

In 2018, the new cement production capacity in the country continued to decrease, and the cement production gradually declined. According to the Cement Big Data Research Institute, the cement production under full caliber was 2.21 billion tons, down 6.03% yearly, and the absolute amount reduced by 140 million tons. There was no new capacity for clinker in the country, and the clinker capacity involved in the new production was about 20 million tons, which were all capacity replacement projects. In 2018, the national clinker production capacity was 1.716 billion tons, a yearly decrease of 54 million tons; the annual clinker production was 1.4 billion tons, and the capacity utilization rate gradually became reasonable.

In 2018, the concentration of cement industry has further increased. In terms of clinker, the concentration of clinker capacity of the top 10 cement companies (groups) reached 64%, a significant increase compared with last year. In terms of cement, the decline in the production of full-scale cement in the country and the increase in cement production in enterprises above designated size have led to an increase in the concentration of cement production. According to the National Bureau of Statistics, the annual cement output of enterprises above designated size in 2018 was 2.177 billion tons, up 3% yearly, while the national cement output under full-caliber was 2.21 billion tons, down 6.03% yearly.

In 2018, the national cement market price showed an overall upward trend. The average monthly market price was above RMB400/ton (including tax price), and the national average price in December had reached RMB464/ton (including tax price, excluding Tibet).

In 2018, the Chinese government continued to strengthen the implementation of environmental protection laws and policies such as eco-environmental protection, pollution prevention, energy conservation and emission reduction, and maintained strict enforcement of "environmental supervision" throughout the Year, focusing on legislative and law enforcement work on pollution prevention in water, soil and air. This creates a significant impact on major industrial enterprises. In June 2018, the "Three-Year Action Plan to Win the Blue Sky Defense War" was issued by the State Council and it required the significant decline in total amount of major air pollutants discharged and greenhouse gas emissions, as well as the concentration of particle to PM2.5. By 2020, the total emissions of sulphur dioxide and nitrogen oxides will decrease by more than 15% as compared with 2015; the number of prefecture-level or below cities which do not satisfy the concentration of PM2.5 will decrease by 18% or above as compared with 2015 and ratio of days with good air quality in prefecture-level or below cities will reach 80% while the ratio for days which are highly polluted or above will decrease by at least 25% as compared with 2015. Policy and law enforcement supervision in the field of environmental protection has had an important impact on the cement industry and the Group. It does not only bring about the pressure and challenge of the cost due to the increase in environmental protection standard, but also elimination of the backward production capacity and the improvement of industrial barriers. This benefits the rebound in sales prices and bring about positive effects.

In 2018, the Chinese government persisted in the reform of supply-side structural reform, the effect of "cut excessive industrial capacity, destocking, de-leveraging and lower corporate costs" continued. In January 2018, the Ministry of Industry and Information Technology issued a notice on the implementation of the capacity replacement method for the iron and steel cement glass industry, which required the prohibition of filing and newly building cement clinker and flat glass projects with expanded production capacity. In June 2018, the "Opinions on Fully Strengthening Ecological Environmental Protection to Win the Battle of Pollution Prevention and Control" were issued by the State Council. It is required to continue resolving the excess new production capacity in industries such as steel, cement, electrolytic aluminum, and flat glass. In August 2018, the "Notice on Strictly Replacing Capacity and Prohibiting New Capacity in the Cement and Flat Glass Industries" was jointly issued by the General Office of the Ministry of Industry and Information Technology and the General Office of the National Development and Reform Commission. The control of new production capacity will facilitate the further elimination of backward production capacity, resolving the overcapacity situation in the cement industry, and improve the supply and demand relationship in the cement industry.

FINANCIAL REVIEW

Revenue

The revenue of the Group was approximately RMB10,060.6 million in 2018, representing an increase of RMB1,640.0 million, or 19.5%, from approximately RMB8,420.6 million in 2017.

The revenue from cement sales was approximately RMB9,100.0 million in 2018, representing an increase of RMB1,231.8 million, or 15.7%, as compared with 2017. The sales volume of cement increased by 0.1 million tons or 0.4%, from approximately 29.3 million tons in 2017 to approximately 29.4 million tons in 2018. The Group took an active market strategy and continuously raised the selling prices to face the changes of the demands and prices in the cement market, resulting in the significant increase in the sales revenue in 2018.

Clinker is a semi-finished product used to produce cement. The clinkers produced in 2018 were primarily used to satisfy the internal demand for cement production. Only approximately 2.8 million tons of the Group's clinkers were sold externally. Approximately RMB813.3 million of revenue generated from clinker sales was recorded in 2018, representing an increase of RMB261.0 million, or 47.2%, from approximately RMB552.3 million in 2017. The revenue growth was mainly due to the significant increase in the price of clinker and the sales.

In 2018, the Group's sales revenue from the central China region amounted to approximately RMB7,684.6 million, representing an increase of RMB1,239.7 million or 19.2% compared to approximately RMB6,444.9 million in 2017. The Group's sales revenue from the Northeastern region of China amounted to approximately RMB2,376.0 million, representing an increase of RMB400.4 million or 20.3% compared to approximately RMB1,975.6 million in 2017.

Revenue from sales of cement was approximately 90.4% of the total revenue in 2018 and 93.4% of the total revenue in 2017, respectively. Revenue from sales of clinker was approximately 8.1% of the total revenue in 2018 and 6.6% of the total revenue in 2017, respectively. In 2018, revenue from sales of aggregate was approximately 1.5% of the total revenue.

Cost of Sales

In 2018, the Company continued its efforts in reducing unit production costs of cement and clinker by leveraging on our economies of scale and through centralized procurement. The cost of sales was approximately RMB6,787.2 million in 2018, representing an increase of RMB763.5 million, or 12.7% as compared with 2017. The increase was primarily due to the higher bulk purchase price of raw materials for the production of cement and clinker.

Cost of sales mainly consists of cost of raw materials, coal and electricity. In 2018, costs of raw materials, coal and electricity as a percentage of cost of sales were approximately 33.6%, 35.5% and 13.1%, respectively. During the period, costs of raw materials, coal and electricity for production of cement per ton were approximately RMB64.4, RMB68.1 and RMB25.1, respectively, representing an increase of RMB0.6, an increase of RMB0.6 and a decrease of RMB2.0, respectively, as compared with 2017.

Gross Profit, Gross Profit Margin and Segment Profit (Loss)

Gross profit was approximately RMB3,273.5 million for the year ended 31 December 2018, representing an increase of RMB876.6 million, or 36.6%, from approximately RMB2,396.9 million last year. Gross profit margin increased to approximately 32.5% in 2018 from approximately 28.5% in 2017. The increase in gross profit margin was primarily due to the larger increase in selling prices of cement and clinker than the increase in unit production cost.

In 2018, the Group's segment profit from the central China region amounted to approximately RMB1,732.9 million, representing an increase of RMB607.7 million or 54.0% compared to approximately RMB1,125.2 million in 2017. The increase was due to the significant increase in the gross profit of the segment of that particular region. The Group's segment loss from the Northeastern region amounted to approximately RMB160.6 million, representing an increase of a profit of RMB389.5 million compared to a segment loss of approximately RMB228.9 million in 2017. This was due to the provision of approximately RMB212.8 million made by the management based on the relevant forecasting analysis of the goodwill and the fixed assets of the subsidiaries of that particular region in 2017; eliminating this factor for comparison, the Group's segment loss from the Northeastern region turned profit.

Other income

Other income was approximately RMB549.1 million for the year ended 31 December 2018, representing an increase of RMB45.6 million, or 9.1%, from approximately RMB503.5 million for the year ended 31 December 2017. The increase was primarily due to the increase in value added tax subsidies for the integrated use of resources and interest on deposits.

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, the Company has 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, the Group is entitled to exercise the Option at any time during the Restricted Period as defined in the Circular.

The fair value of the Option at the end of December 2018 was about RMB7,588,000 and the Company has not exercised the Option. The revenue of the change in fair value during the year in the amount of about RMB4,862,000 was recognized in profit or loss in the consolidated financial statements.

Selling and Distribution Expenses

For the year ended 31 December 2018, selling and distribution expenses were approximately RMB341.4 million, which was basically in line with approximately RMB341.0 million for the year ended 31 December 2017.

Administrative Expenses

Administrative expenses were approximately RMB434.8 million for the year ended 31 December 2018, representing an increase of RMB13.7 million, or 3.3%, from approximately RMB421.1 million for the year ended 31 December 2017. The increase in administrative expenses was mainly due to the acquisition of Yongan Cement and Xindeng Cement completed by the Company in June 2017, which were consolidated into the Group's results, and the commencement of operation of Tiger Cement during the year, resulting in the increase in administrative expenses for the year.

Other Expenses

Other expenses were approximately RMB105.9 million for the year ended 31 December 2018, representing an increase of approximately RMB26.0 million, or 32.5%, from approximately RMB79.9 million for the year ended 31 December 2017. The increase in other expenses was mainly due to the increase in expense incurred in temporary suspension period due to seasonal effect.

Finance Costs

Finance costs were approximately RMB1,122.0 million for the year ended 31 December 2018, representing an increase of RMB116.4 million, or 11.6%, from approximately RMB1,005.6 million for the year ended 31 December 2017. The increase was primarily attributable to the increase in the interest rates of the Company's borrowings and bonds due to the changes in the financing environment.

PROFIT BEFORE TAXATION

As a result of the foregoing, profit before taxation was approximately RMB1,742.6 million for the year ended 31 December 2018, representing an increase of approximately RMB388.6 million, or approximately 28.7%, from approximately RMB1,354.0 million for the year ended 31 December 2017.

Excluding the impact of the RMB6.1 million (2017: approximately RMB451.3 million) gains on fair value changes of derivative financial assets, the profit before taxation is approximately RMB1,736.5 million, which increased by RMB833.8 million or 92.4% as compared to approximately RMB902.7 million in 2017.

INCOME TAX EXPENSES

Income tax expenses were approximately RMB490.8 million for the year ended 31 December 2018, representing an increase of RMB129.5 million, or about 35.8% from approximately RMB361.3 million for the year ended 31 December 2017, which was mainly due to the significant increase of operating income other than the revenue of 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, profit attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB1,212.5 million, representing an increase of RMB210.7 million, or about 21.0%, from approximately RMB1,001.8 million for the year ended 31 December 2017. The net profit margin increased from 11.9% for the year ended 31 December 2017 to 12.1% for the year ended 31 December 2018.

FINANCIAL AND LIQUIDITY POSITION

Trade and other receivables

Trade and other receivables increased from approximately RMB3,642.9 million as at 31 December 2017 to approximately RMB4,423.9 million as at 31 December 2018, mainly due to the increase in bills receivables due to the increase in sales and procurement and the increase in bills endorsed to suppliers and prepayments.

Amounts due from associates

The amounts due from an associate of approximately RMB944.9 million as at 31 December 2018 (2017: approximately RMB626.0 million) represents the advance payment paid to Ruiping Shilong for the clinker purchase in 2019 under the Clinker Supply Framework Agreement and the deposit with Tianrui Group Finance Company Limited ("Tianrui Finance").

Inventories

Inventories decreased from approximately RMB949.3 million as at 31 December 2017 to approximately RMB874.9 million as at 31 December 2018, primarily due to the decrease in the inventory amount during the year 2018.

Restricted balances and other liabilities

On 29 December 2018, the Group and CCB Financial Asset Investment Co., Ltd ("CCB") entered into a capital injection agreement, share repurchase agreement and its supplementary agreement (collectively the "Agreements") pursuant to which CCB conditionally agreed to inject capital into five wholly-owned subsidiaries of the Company with an aggregate investment amount of RMB2,000,000,000. According to the Agreements, the Group is required to repurchase the shares of these subsidiaries held by CCB at the investment amount plus a premium as stipulated in the Agreements. In addition, Tianrui Group has also entered into a profit guarantee agreement with CCB to guarantee a minimum yearly return rate of the investment made by CCB.

As at 31 December 2018, the conditions to complete the capital injection into these subsidiaries have not been fulfilled. Pursuant to the Agreements, certain amounts of the capital fund injected by CCB are designated to use to settle certain existing borrowings of these subsidiaries.

As at 31 December 2018, the amount of RMB2,000,000,000 received from CCB was placed in a bank account of the Group which is restricted as to use before the completion of the capital injection.

Cash and cash equivalents

Cash and bank balance decreased from approximately RMB830.7 million as at 31 December 2017 by RMB118.9 million or 14.3% to approximately RMB711.8 million as at 31 December 2018, primarily due to the Group's deposit of RMB644.9 million with Tianrui Finance which was listed in the balance of amounts due from associates. The Group's annual balance of deposits with commercial banks and Tianrui Finance was RMB1,356.7 million.

Borrowings

As at 31 December 2018, the amount of total borrowings and debentures (including corporate bonds) of the Group decreased by approximately RMB1,503.2 million or 12.6% to approximately RMB10,394.5 million from approximately RMB11,897.7 million last year. Borrowings due within one year and short-term debentures (including mid-term debentures due within one year) decreased from approximately RMB10,750.7 million as at 31 December 2017 to RMB5,853.7 million as at 31 December 2018; borrowings due after one year, midterm debentures and long-term corporate bonds increased from approximately RMB1,147.0 million as at 31 December 2017 to approximately RMB4,540.8 million as at 31 December 2018; the Group has been repaying the debts in accordance with the terms of the loan agreement, and the Group had unutilized bank facilities of approximately RMB800.6 million as at 31 December 2018.

Principal sources of liquidity

The Group's principal sources of liquidity have historically been cash generated from operations and bank and other borrowings. It has historically used cash from such sources for working capital, production facility expansions, other capital expenditures and debt repayments. The Company anticipates these sources will continue to be the principal financing in the future and expects the cash flow will be sufficient to fund the ongoing business requirements. Meanwhile, the Company will further broaden the financing channels to improve its capital structure.

MATERIAL ACQUISITIONS AND DISPOSALS

On 29 December 2018, the Group and CCB entered into the Capital Injection Agreements, pursuant to which CCB conditionally agreed to inject capital into Tianrui Group Zhengzhou Cement Company Limited 天瑞集團鄭州水泥有限公司*, Dalian Tianrui Cement Company Limited 大連天瑞水泥有限公司*, Tianrui Group Guangshan Cement Company Limited 天瑞集團光山水泥有限公司*, Weihui Shi Tianrui Cement Company Limited 衛輝市天瑞水泥有限公司* and Tianrui Group Ruzhou Cement Company Limited 天瑞集團汝州水泥有限公司* (together the "Target Companies") in the aggregate amount of RMB2,000,000,000.

On 29 December 2018, the Group and CCB entered into the Share Repurchase Agreements pursuant to which the Group agreed to repurchase the relevant equity interests in the Target Companies at an amount equal to the relevant amount to be injected by CCB to the Target Companies.

Save as disclosed above, there were no other material acquisitions or disposals of the Group during the reporting period.

GEARING RATIO

As at 31 December 2018, the gearing ratio was approximately 61.2%, representing a decrease of 0.4 percentage points from approximately 61.6% as at 31 December 2017. The change of gearing ratio was due to the increase in interests of the holders.

As at 31 December 2018, the current gearing ratio was approximately 1.0, representing an increase of 32.5% from approximately 0.7 as at 31 December 2017. The quick ratio was approximately 0.9, representing an increase of 35.1% from approximately 0.7 as at 31 December 2017. Changes of the above ratios were due to the increase in current assets except inventory and the decrease in current liabilities.

As at 31 December 2018, the debt equity ratio was approximately 1.6, which was the same as approximately 1.6 as at 31 December 2017.

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 at 31 December 2018, the net gearing ratio was approximately 57.9%, representing a decrease of 20.2 percentage points from approximately 78.1% as at 31 December 2017. 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 2018 was approximately RMB303.8 million (2017: approximately RMB102.7 million) and capital commitments for the year ended 31 December 2018 was approximately RMB399.3 million (2017: approximately RMB470.7 million). Both the capital expenditure and capital commitments were mainly related to the construction of production facilities for cement and aggregate businesses and the acquisition of machinery, office equipment, investment in construction in progress and mining rights. The Group funded capital expenditure through cash generated from operations and bank and other borrowings.

PLEDGE OF ASSETS

As at 31 December 2018, carrying amount of the assets of the Group pledged to secure the bank borrowings granted to the Group amounted to approximately RMB3,879.8 million (2017: approximately RMB4,143.7 million).

CONTINGENT LIABILITIES

As at 31 December 2018, other than contingent liabilities arising from the provision of guarantee to related parties amounting to approximately RMB1,275.8 million (2017: approximately RMB1,710.0 million), the Group did not have other contingent liabilities. The guarantees provided to the related parties have been provided pursuant to Tianrui Cement Guarantees according to the 2017 Framework Agreement Provision of Mutual Guarantees, the details of which are set out in the circular dated 1 May 2017.

SIGNIFICANT INVESTMENTS

For the year ended 31 December 2018, save as disclosed in this announcement, the Group did not hold any material investment, make any material investment nor acquire any capital assets as of 31 December 2018.

MARKET RISKS

Interest rate risk

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

Liquidity risk

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

Exchange rate risk

Certain bank balances and borrowings of the Group are denominated in Hong Kong Dollar ("HK$") or United States Dollar ("US$"), 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 at 31 December 2018, our Group had 7,465 employees (2017: 7,822). In 2018, the employees' cost (including remuneration) was approximately RMB457.8 million (2017: approximately RMB418.6 million). The remuneration policies, bonus and training programs for employees of the 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 2018.

According to the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Board established the Remuneration Committee to formulate the remuneration policies of the Directors and senior management, ensuring the Company to have proper and transparent procedures. The remuneration of the Group's employee, including the Directors, is generally determined with reference to the prevailing market conditions, their individual qualifications and their duties and responsibilities with the Company. Annual remuneration system and annual target responsibility system are the main forms of evaluation, incentive and regulation for the senior management and the management of the branch companies and subsidiaries. The Company signs a letter of annual target responsibility in the beginning of the year with the senior management and the management of the branch companies and subsidiaries, which covers the key indicators like production and sales volume, cost, profit, control and management targets, and the annual requirements of duty performance. In the end of the year, the Company conducts performance appraisal, evaluating the annual operating result and the working and management abilities of the senior management and the management of the branch companies and subsidiaries. Such appraisal links with the annual remuneration. The remuneration is determined according to the individual performance of the employees, and is subject to regular review. This is to implement a monthly performance and job based remuneration scheme that links to the overall operating efficiency of the Company and based on the duties and responsibilities of the employee.

The Company values its employee as its most valuable assets. We place great importance on effective communication with all levels of staff, as we believe that enhancing the employee's sense of belonging is the core value of successful operation. According to the relevant PRC laws and regulations, we provide all staff with remuneration packages that include salary, allowances and social benefits like pension insurance, work injuries insurance, medical insurance and unemployment insurance, subject to regular review by our management. The Company has also invested in providing induction and professional skill trainings for all levels of management and other employees, so as to constantly improve their skills and knowledge. For the year ended 31 December 2018, we have organized 70,992 training hours of different training programmes (each session lasts 45–50 minutes) with a total attendance of 69,819 participants.

PROSPECTS

In 2019, the Chinese government has set a target GDP growth rate of 6% to 6.5%. It will implement a more proactive fiscal policy with a planned deficit rate of 2.8%, which is 0.2% higher than that of last year. The implementation of a moderately prudent monetary policy will reduce the effective interest rate level. There may be a specific proposal on a larger scale tax reduction. Thus, the burden of corporate social security contributions will be significantly reduced. It is confirmed that the investment of RMB800 billion in railway investment and the RMB1.8 trillion in highway in 2019 water transport investment will be completed while there will be increased investment in infrastructure such as inter-city transportation, logistics, municipal administration, disaster prevention, civil and general aviation. The implementation of these policies and objectives will certainly help to reduce the operating costs of cement companies and stabilize the cement demand.

In 2019, there will be expectation in the demand for cement in the Group's core operations region. The Henan Provincial Development and Reform Commission recently issued the "7819 Implementation Plan for the Expansion of Effective Investment Actions in Henan Province", focusing on seven major fields, including advanced manufacturing, modern service industry, major infrastructure, new urbanization, agriculture and rural areas, ecological environment protection, and social welfare. It will concentrate on promoting 8,000 key projects with a total investment of RMB7.5 trillion and strive to complete an investment of RMB1.9 trillion throughout the year 2019. The implementation of these projects will certainly support the demand for cement in Henan Province.

In 2019, Report on the Work of the Government stated that the government should continue to adhere to the supply-side structural reform as their priority, and work hard under the concepts of "consolidation, enhancement, upgrade, and smoothening". The Government will also strengthen pollution prevention and ecological construction, consolidate and expand the scope of the Blue Sky Defense War. In 2019, it is expected that the emission of sulfur dioxide and nitrogen oxides will decrease by 3%, and the concentration of fine particulate matter (PM2.5) in key areas will continue to decline. Water and soil pollution control will be strengthened while chemical oxygen demand and ammonia nitrogen emissions should be reduced by 2%. The policy in the field of environmental protection has an important impact on the cement industry, which is conducive to the elimination of backward production capacity and the improvement of industrial barriers in the cement industry, which in turn is conducive to the improvement of the supply and demand in the industry.

In 2019, the "Leading Group for Pollution Prevention and Control" of Henan Province issued the "Implementation Plan for Atmospheric Pollution Prevention and Control in 2019 in Henan Province", which required the qualified cement clinker enterprises in the province to complete the standardization treatment. In a reference oxygen content of 10%, there should not be more than 10 mg/m3, 35 mg/m3, 100 mg/m3 and 8 mg/m3 of particles, sulfur dioxide, nitrogen oxides and ammonia respectively in the cement kiln exhaust gas. There is also detailed arrangement in 2019 cement staggering peak production in Henan Province. In addition, during the days of heavy pollution, all enterprises will participate in emergency management and control according to the law, actively promoting the production of general cement clinker production lines of 2,000t/d and below with cement grinding equipment with a diameter of 3m or less. Cities will also be encouraged to shut down the relevant enterprise equipment in advance. The strict implementation of environmental protection standards will definitely eliminate backward production capacity. The withdrawal of production capacity and the implementation of staggering peak production will continue to improve the supply and demand relationship in the Henan cement market.

As one of the twelve nationally recognized major cement companies in China and one of the five cement companies designated by the Ministry of Industry and Information Technology, the Group is encouraged to undertake the integration of the cement market in the Central China region and to promote the integration of the cement industry. The government provides support to designated companies such as tax incentives and special projects or financing approvals. The Group will make full use of its policies and its own advantages, strengthen internal management, enhance refined management while optimizing production processes, increasing production utilization, and promoting regional market integration and synergy in order to seize new profit growth points, maintain and enhance the advantages of cost and scale to consolidate the leading market position in Henan and Liaoning.

Profiles of Directors and Senior Management

DIRECTORS

As at 31 December 2018, our Board consisted of eight Directors, comprising four executive Directors, one non-executive Director 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	61	Non-executive Director and Chairman of the Board of Directors
Li Fengluan	56	Executive Director
Ding Jifeng	49	Executive Director
Xu Wuxue	43	Executive Director and Chief Financial Officer
Li Jiangming	41	Executive Director and Joint Company Secretary
Kong Xiangzhong	64	Independent non-executive Director
Wang Ping	48	Independent non-executive Director
Du Xiaotang	45	Independent non-executive Director

Chairman and Non-executive Director

Mr. Li Liufa (李留法), male, aged 61, is a non-executive Director, the chairman of the Board and a member of the Nomination Committee. He is the founder of the Group. Mr. Li was appointed as a non-executive Director on 2 July 2011 and was appointed as a member of the Nomination Committee on 15 June 2018. 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, the Twelfth National People's Congress in March 2013 and the Thirteenth National People's Congress in March 2018. Chairman Li was the executive director, executive director-chairman of the board of directors of China Shanshui Cement Group Limited (stock code: 691.HK) ("Shanshui Cement") from 1 December 2015 to 23 May 2018. 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. Chairman Li is the spouse of Ms. Li Fengluan, an executive Director of the Company.

Profiles of Directors and Senior Management

Executive Directors

Ms. Li Fengluan (李鳳孌), female, aged 56, is an executive Director of the Company. Ms. Li was appointed as an executive Director of the Company on 18 January 2018. Prior to that, she had been the general manager and director of Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司), the chairman of Tianrui Group Zhengzhou Cement Company Limited (天瑞集團鄭州水泥有限公司) and the chairman of Tianrui Cement Group Company Limited (天瑞水泥集團有限公司). Ms. Li has over 30 years of extensive experience in finance and accounting, auditing and operation management and holds the qualification of "Accountant". Ms. Li is currently a director and deputy general manager of Tianrui Group Company Limited (天瑞集團股份有限公司) and the chairman and legal representative of Tianrui Cement Group Company Limited. Ms. Li obtained a Bachelor Degree from Henan University (河南大學) in 1984 and an EMBA from Peking University (北京大學) in 2008. Ms. Li is the spouse of Mr. Li Liufa, Chairman of the Board and non-executive Director of the Company, and the elder sister of Mr. Li Jiangming, an executive Director of the Company.

Mr. Ding Jifeng (丁基峰), male, aged 49, is an executive Director of the Company and the general manager of our Group (the Company and its subsidiaries are collectively referred to as our "Group"). Mr. Ding Jifeng was appointed as an executive Director of the Company on 15 May 2017. He 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. Before joining our Group, he had served in Jiaxian Tian Guang Group Company Limited (郟縣天廣集團有限公司) and Pingdingshan Xingfeng Group Company Limited (平頂山星峰集團有限責任公司) since 1991. He was previously the director and general manager of Shandong Shanshui, a subsidiary of Shanshui Cement. Mr. Ding graduated from Henan University in 1996, majoring in economic management. He has the title of "Economist".

Mr. Xu Wuxue (徐武學), male, aged 43, 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 17 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 41, 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 and was appointed as the executive Director of the Company on 11 June 2014. 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 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 Ms. Li Fengluan, an executive Director of the Company.

Independent non-executive Directors

Mr. Kong Xiangzhong (孔祥忠), male, aged 64, 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 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 director and chief engineer of the cement grinding department 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. Wang Ping (王平), male, aged 48, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee. Mr. Wang was appointed as the independent non-executive Director on 24 December 2012. Mr. Wang has nearly 20 years of experience in corporate finance, audit, accounting and taxation.

Mr. Wang Ping currently holds the following positions in other companies:

An independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. which is listed on the Shenzhen Stock Exchange since November 2010 and subsequently the non-executive director since May 2017; an independent non-executive director of China Hangking Holdings Limited (Stock Code: 3788.HK), a company listed on the Stock Exchange, since February 2011; an independent non-executive director of Tourism International Holdings Limited (formerly known as Jia Yao Holdings Limited) (Stock Code: 1626.HK), a company listed on the Stock Exchange since June 2014; an independent non-executive director of China Sinostar Group Company Limited (formerly known as Shihua Development Company Limited) (Stock Code: 485.HK), a company listed on the Stock

Exchange, since July 2014; an independent non-executive director of Sichuan CRUN Co., Ltd. a company listed on the Shenzhen Stock Exchange from March 2016 to March 2019; an independent non-executive director of Shenzhen Zowee Tech. Co., Ltd., a company listed on the Shenzhen Stock Exchange, since July 2016; a non-executive director of Bojun Education Company Limited (Stock Code: 1758.HK) since September 2016; and an independent non-executive director of Yunnan Energy New Material Co., Ltd. (formerly known as "Yunnan Chuangxin New Material Co., Ltd."), a company listed on the Shenzhen Stock Exchange, since April 2017.

Mr. Wang Ping previously held the following positions in other companies:

A senior accountant and subsequently a manager for audit department of Deloitte Touche Tohmatsu CPA Ltd. from September 1999 to August 2002; a senior vice president of Guang Da (China) Automotive Components Holdings Limited, a subsidiary of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Stock Exchange (stock code: 01269.HK), and the chief financial officer and an executive director of China First Capital Group Limited, from December 2012 to December 2015; an independent non-executive director of Shenzhen Fuanna Bedding and Furnishing Co. Ltd., a company listed on the Shenzhen Stock Exchange, from December 2013 to September 2017; a chief financial officer of China Jishan Holdings Limited, the shares of which are listed on the main board of Singapore Stock Exchange, from February 2004 to March 2007; and vice president and subsequently director of 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.

Mr. Wang 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. Du Xiaotang (杜曉堂), male, aged 45, 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.HK), a company listed on the Stock Exchange, since 2014. Mr. Du is also currently an independent non-executive director of Sichuan Jinlu Group Co., Ltd. (Stock Code: 000510), which is listed on the Shenzhen Stock Exchange, and an executive director of Kinergy Corporation Ltd. (Stock Code: 3302.HK), a company listed on the Stock Exchange. 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 49, is a general manager of our Group. Details of Mr. Ding's profile are set out in the section headed "Directors" above.

Mr. Jing Xianyu (井獻玉) (formerly known as Jing Xianyu (井現於)), male, aged 54, 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 the Group since February 2008. 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勳企業家)" in September 2009.

Mr. Xu Wuxue (徐武學), male, aged 43, is the Chief Financial Officer of our Company and the Financial Controller of our Group. Details of Mr. Xu's profile are set out in the section headed "Directors" above.

Mr. Gao Yunhong (高運紅), male, aged 48, 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 41, 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 are set out in the section headed "Directors" above.

Mr. Lv Xing (呂行), male, aged 40, is the deputy financial controller of our Company and a chief accountant of our Group. Mr. Lv joined the Company in 2012 and has been the Group's deputy chief accountant and chief accountant. Mr. Lv 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".

Joint Company Secretaries

Mr. Li Jiangming (李江銘), male, 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 are set out in the section headed "Directors" above.

Ms. Ng Ching Mei (吳靜薇), female, was appointed as the joint company secretary and the authorized representative of our Company on 15 May 2017. Ms. Ng holds a Bachelor Degree of Business Administration in Accounting and Finance from the University of Hong Kong and is a fellow member of the Hong Kong Institute of Certified Public Accountants. She has extensive experience in auditing, finance and accounting gained from multinational corporations and an international accounting firm. She was the company secretary of Sanmenxia Tianyuan Aluminum Company Limited (a company previously listed on The Stock Exchange of Hong Kong Limited with the stock code of 8253.HK) from April 2014 to September 2015.

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 2018 (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 2018 are set out in Note 56 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 2018 are set out in this Annual Report.

The Board did not propose the declaration of final dividend for the year ended 31 December 2018 (2017: 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 18 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 37, 39 and 40 to the Consolidated Financial Statements of this Annual Report.

SHARE CAPITAL

During the year ended 31 December 2018, there was no movement in the share capital of the Company.

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 2018 amounted to RMB6,999.2 million (31 December 2017: RMB5,969.1 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 2018 were:

Non-executive Director and Chairman of the Board of Directors

Mr. Li Liufa

Executive Directors

Ms. Li Fengluan
Mr. Ding Jifeng
Mr. Xu Wuxue
Mr. Li Jiangming

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 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 2018.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the independent non-executive Directors, namely Mr. Kong Xiangzhong, Mr. Wang Ping 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 2018 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 2018, 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)]	Interest of corporation controlled by the director/ Long position	1,986,984,822[(2)]	67.62
Ms. Li Fengluan[(1)]	Interest of corporation controlled by the director/ Long position	1,986,984,822[(2)]	67.62

(1) Yu Kuo Company Limited ("Yu Kuo") is 51.25% owned by Holy Eagle Company Limited ("Holy Eagle") and 48.75% owned by Yu Qi Company Limited ("Yu Qi") by equity interests. Each of Holy Eagle and Yu Qi are wholly owned by Tianrui (International) Holding Company Limited ("Tianrui International"), which is wholly owned by Tianrui Group Company Limited ("Tianrui Group"). Tianrui Group is 70% owned by Mr. Li Liufa and 30% owned by Ms. Li Fengluan, the spouse of Mr. Li Liufa, respectively. Mr. Li Liufa and Ms. Li Fengluan are deemed to be interested in the shares held by Yu Kuo.

(2) As at 31 December 2018, Yu Kuo pledged its 842,247,000 shares (approximately 28.66% of the issued share capital of the Company) held in the Company to financial institutions in order to secure its own loans.

Save as disclosed above, as at 31 December 2018, 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

At no time during the period ended 31 December 2018 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 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 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 Ms. Li Fengluan 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 2018, 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 2018, Tianrui (International) Holding Company Limited, a wholly-owned subsidiary of Tianrui Group Company which is owned as to 70% by Chairman Li and 30% by Ms. Li Fengluan, has an interest in 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 21.85% issued share capital of Shanshui Cement. Shanshui Cement is engaged in production of clinker and cement in China.

As at 31 December 2018, 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 performance of Shanshui Cement.

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 2018.

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 2018, 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 of the Group.

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 14 and 15 to the Consolidated Financial Statements of this Annual Report.

RETIREMENT SCHEMES

The employees of the Group 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 2018 were RMB41.3 million. Particulars of these plans are set out in Note 48 to the Consolidated Financial Statements of this Annual Report.

MANAGEMENT CONTRACTS

Other than employment contracts 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 existed or entered into with any individual, company or body corporate during the year.

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

As at 31 December 2018, 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]	1,986,984,822[2]	67.62
Tianrui Group	Interest of corporation controlled by the substantial shareholder/Long position[1]	1,986,984,822[2]	67.62
Tianrui International	Interest of corporation controlled by the substantial shareholder/Long position[1]	1,986,984,822[2]	67.62
Holy Eagle	Interest of corporation controlled by the substantial shareholder/Long position[1]	1,986,984,822[2]	67.62
Yu Qi	Interest of corporation controlled by the substantial shareholder/Long position[1]	1,986,984,822[2]	67.62
Mr. Li Liufa	Interest of corporation controlled by the director/ Long position[1]	1,986,984,822[2]	67.62
Ms. Li Fengluan	Interest of corporation controlled by the substantial shareholder/Long position[1]	1,986,984,822[2]	67.62
The Export-Import Bank of China	Party with security interest over the shares/Long position	315,000,000	10.72
Buttonwood Investment Holding Company Ltd.	Interest of controlled corporation/Long position	315,000,000	10.72
PA Investment Funds SPC — PA Greater China Industrial Opportunities Fund Segregated Portfolio	Beneficial owner/Long position	237,600,000	8.09
China Huarong Asset Management Co., Ltd.	Interest of controlled corporation/Long position	300,000,000	10.21
China Huarong International Holdings Limited	Interest of controlled corporation/Long position	300,000,000	10.21
Right Select International Limited	Interest of controlled corporation/Long position	300,000,000	10.21
Best Ego Limited	Party with security interest over the shares/Long position	300,000,000	10.21

Name	Capacity/Nature of interests	Total number of shares	Approximate percentage of shareholding (%)
Haitong International Financial Solutions Limited	Party with security interest over the shares/Long position	167,001,000	5.68
	Short position	1,000	0.00
Haitong International Holdings Limited	Interest of controlled corporation/ Long position	167,001,000	5.68
	Short position	1,000	0.00
Haitong International Securities Group Limited	Interest of controlled corporation/ Long position	167,001,000	5.68
	Short position	1,000	0.00
Haitong Securities Co., Limited	Interest of controlled corporation/ Long position	167,001,000	5.68
	Short position	1,000	0.00
Henan Jiuding Financial Leasing Co., Ltd	Party with security interest over the shares/Long position	200,000,000	6.81

(1) Yu Kuo is 51.25% and 48.75% owned by Holy Eagle and Yu Qi respectively by equity interests. Holy Eagle and Yu Qi are wholly owned by Tianrui International respectively, whereas Tianrui International is wholly owned by Tianrui Group. Tianrui Group is 70% and 30% owned by Mr. Li Liufa and Ms. Li Fengluan, the spouse of Mr. Li Liufa respectively. Mr. Li Liufa, Ms. Li Fengluan, Tianrui Group, Tianrui International, Holy Eagle and Yu Qi are respectively deemed to be interested in the shares held by Yu Kuo.

(2) As at 31 December 2018, Yu Kuo pledged its 842,247,000 shares (approximately 28.66% of the issued share capital of the Company) held in the Company to financial institutions in order to secure its own loans.

Saved as disclosed above, as at 31 December 2018, 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 2018 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 2.45% of the issued shares of the Company as at the date of the 2018 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% 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 2018

Since the Adoption Date and as of 31 December 2018, 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 2018, save as disclosed below, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

(a) Purchase of Clinker

(1) On 18 December 2017, Tianrui Cement Group Company Limited ("Tianrui Cement"), a wholly owned subsidiary of the Company, and Pingdingshan Ruiping Shilong Cement Company Limited ("Ruiping Shilong") entered into the supplemental clinker supply framework agreement (the "Supplemental Clinker Supply Framework Agreement") pursuant to which Tianrui Cement agreed to purchase the clinker from Ruiping Shilong. 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.

Ruiping Shilong is held as to 40% equity interest by Tianrui Cement and 60% by Ruiping Power, Ruiping Power is held by Tianrui Foundry (indirectly and jointly wholly-owned by Chairman Li and Ms. Li Fengluan) as to 40% and by an independent third party as to 60%. Chairman Li, the chairman, non-executive Director, controlling shareholder and ultimate controlling shareholder of the Company, and Ms. Li Fengluan, an executive Director of the Company control more than 30% of the voting power at general meeting of Ruiping Shilong. Ruiping Shilong is therefore an associate of Chairman Li and Ms. Li Fengluan and a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Clinker Supply Framework Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The background and purpose for entering into the Supplemental Clinker Supply Framework Agreement were: with the continuous development of the Group, it is expected that the demand for clinker, a major intermediate product of cement, would increase. In light of its proximity of the Group, Ruiping Shilong has been providing 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.

Pursuant to the Supplemental Clinker Supply Framework Agreement, the annual caps of the transactions contemplated thereunder were RMB300,000,000, RMB300,000,000 and RMB300,000,000 for each of the three years ending 31 December 2017, 2018 and 2019 respectively.

For the year ended 31 December 2018, Tianrui Cement purchased clinker from Ruiping Shilong with transaction value of RMB298.0 million.

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

(b) Mutual guarantees

On 11 May 2017, the Company and Tianrui Group Company Limited ("Tianrui Group") entered into a framework agreement in relation to the provision of mutual guarantees (the "2017 Framework Agreement"), with a term from 11 May 2017 to 31 December 2019 ("Term").

Tianrui Group is owned as to 70% by Chairman Li and 30% by Ms. Li Fengluan is therefore an associate of a connected person of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the 2017 Framework Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As disclosed in the circular of the Company dated 19 July 2017 (the "Circular of Mutual Guarantees"), according to the 2017 Framework Agreement: (a) Tianrui Group 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 the Company or its subsidiaries ("Tianrui Group Guarantee"); (b) the Company 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) ("Company Guarantee"). On the same date as the 2017 Framework Agreement, Chairman Li, entered into the Counter Guarantee Agreement with the Company, pursuant to which Chairman Li has agreed to indemnify the Company or its subsidiaries by means of the Counter Guarantee for any amount that it would have to pay in accordance with each Tianrui Cement under the 2017 Framework Agreement ("Counter Guarantee"). For details on Tianrui Group Guarantee, Company Guarantee and Counter Guarantee, please refer to the paragraph headed "Major Terms of 2017 Framework Agreement and the Transactions Contemplated Thereunder" in the Circular of Mutual Guarantees.

The background and purpose for entering into the 2017 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 often require the provision of the third-party guarantee for granting a loan; (b) the historical utilization of the Tianrui Group Guarantee is greater than that of the Tianrui Cement Guarantee, and there has not been default of any loans guaranteed by either the Tianrui Group Guarantee or the Tianrui Cement Guarantee; (c) the Group's business is capital-intensive and financing is necessary; (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 2017 Framework Agreement" in the Circular of Mutual Guarantees.

As of 31 December 2018, according to the 2017 Framework Agreement and as approved by a special committee, the Company (including its subsidiaries) provided guarantees of RMB1,710.0 million in aggregate to Tianrui Group (including its subsidiaries), while Tianrui Group (including its subsidiaries) provided guarantees of RMB3,536.0 million 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) Deposit and financial services agreements

On 6 October 2017, Tianrui Cement Group Company Limited ("Tianrui Cement"), a wholly owned subsidiary of the Company, and Tianrui Group Finance Company Limited ("Tianrui Finance") entered into (i) the deposit services agreement (the "Deposit Services Agreement"), pursuant to which Tianrui Finance agreed to provide Tianrui Cement and its subsidiaries (the "Cement Group") with the deposit services (*inter alia*, demand deposit, saving deposit, notice deposit and agreed deposit services) (the "Deposit Services") for a term commencing from the date of approval of the Deposit Services Agreement by the independent Shareholders (i.e. 29 December 2017) to 31 December 2019; and (ii) the financial services agreement (the "Financial Services Agreement"), pursuant to which Tianrui Finance agreed to provide the Cement Group with the credit services and settlement services (the "Financial Services") for a term commencing from 29 December 2017 to 31 December 2019.

Tianrui Finance is a subsidiary of Tianrui Group. Tianrui Finance is held as to 74.5% equity interest by Tianrui Group and its subsidiaries. Tianrui Group is the holding company of Tianrui (International) Holding Company Limited which owns the entire issued share capital of Holy Eagle Company Limited and Yu Qi Company Limited, which together owns the entire issued share capital of Yu Kuo, a controlling Shareholder of the Company. Accordingly, Tianrui Finance is a connected person of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the Deposit Services Agreement and the Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As disclosed in the circular of the Company dated 12 December 2017 (the "Circular"), the principal terms of the Deposit Services were: the interest rate(s) offered by Tianrui Finance to the Cement Group for the Deposit Services shall not be lower than (i) the relevant benchmark interest rate(s) as set by the PBOC and (ii) the interest rate(s) offered to the Cement Group by other mainstream financial institutions in the PRC for comparable deposits of similar nature and under similar terms during the same period. The daily balance of the Cement Group's deposits (including any interest accrued therefrom) with Tianrui Finance for the years ending 31 December 2017, 2018 and 2019 shall not exceed RMB700 million, RMB1 billion and RMB1 billion, respectively. However, the amount deposited by the Cement Group with Tianrui Finance shall not be more than the usage of the total amount of funds provided by Tianrui Finance and its affiliates to the Group (including but not limited to any loan provided by Tianrui Finance and its affiliates to the Cement Group). In the event of any default by Tianrui Finance as a result of which the Cement Group not being able to recover the amount deposited with Tianrui Finance, the Group will be able to offset the amounts owing by Tianrui Finance to the Cement Group against the amounts due from the Cement Group to Tianrui Finance.

The principal terms of the Financial Services provided by Tianrui Finance to member(s) of the Cement Group are set out below:

1. The Credit Services

Subject to the compliance of other applicable laws and regulations, the internal compliance and approval of Tianrui Finance and the entering of definitive agreement, Tianrui Finance would provide comprehensive credit facilities services to the Cement Group in aggregate amount of RMB1.5 billion, RMB2 billion and RMB2.5 billion for the years ending 31 December 2017, 2018 and 2019, respectively.

The interest rate for the Credit Services to be provided by Tianrui Finance to the Cement Group shall be determined on normal commercial terms by reference to the interest rate(s) announced by the PBOC and the market conditions, but shall not exceed the highest interest rate offered by the PBOC for the same type of loan, and shall not exceed the interest rate offered by major financial institutions for the same type of loan.

2. The Settlement Services

Tianrui Finance would provide collection and payment services and other relevant clearing and settlement services for the member(s) of the Cement Group free of charge. Tianrui Finance shall ensure that its settlement services system operates safely which protects the security of funds and control the risk of assets and liabilities.

3. Other Services

If Tianrui Finance provides any other financial services as approved by China Banking Regulatory Commission to the Cement Group, Tianrui Finance and Tianrui Cement will enter into a separate agreement, in accordance with the Financial Services Agreement and the requirements of the Listing Rules.

The fees so charged shall not be higher than the rates for the same type of services of the same period offered by any financial institutions for the same type of services in PRC.

Proposed Caps

The Company proposed the annual caps for the Credit Services for the years ending 31 December 2017, 2018 and 2019 are RMB1.5 billion, RMB2 billion and RMB2.5 billion, respectively.

The background and purpose for entering into the Deposit Services Agreement and the Financial Services Agreement are: Tianrui Finance is a non-banking financial institution subject to the supervision of the CBRC and is authorized to provide a variety of financial services including deposit services by PRC law and regulations even though it is not a bank. Given the connection between the Company and Tianrui Finance the Company is familiar with the operation of Tianrui Finance and believes that it is a reliable and suitable financial institution to make deposit with. The interest of Tianrui Cement has been protected under various terms of the Deposit Agreement. Pursuant to the Financial Services Agreement, Tianrui Finance shall provide credit to Tianrui Cement from time to time. According to the Deposit Services Agreement, the amount deposited by Tianrui Cement in Tianrui Finance shall at all time be less than the total loan outstanding balance provided by Tianrui Finance to Tianrui Cement. Furthermore, in case of any default by Tianrui Finance in returning any deposit amount, Tianrui Cement is entitled to offset the amounts owing by Tianrui Finance to Tianrui Cement against the amounts due from Tianrui Cement to Tianrui Finance. With proper internal control measures, Tianrui Cement can control the amount to be deposited with Tianrui Finance to a level that is lower than the total outstanding balance owing to Tianrui Finance. Therefore, there will not be actual loss to be incurred by Tianrui Cement in case of default by Tianrui Finance and the interest of Tianrui Cement is safeguarded.

For the year ended 31 December 2018, the amount of Tianrui Cement's deposits placed with Tianrui Finance was RMB644.9 million, while the balance of unsecured loans provided by Tianrui Finance to Tianrui Cement in respect of the Credit Services was RMB1,000.0 million.

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.

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 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 the Group; 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 2018, the Group also engaged in certain related party transactions as disclosed in Note 49 to the Consolidated Financial Statements of this Annual Report. The related party transactions comprise (1) the Group's purchase of clinker from Ruiping Shilong which have been approved by the Board of the Company as set out in the section headed "Connected Transaction and Continuing Connected Transactions — (a) Purchase of Clinker" 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) deposit in Tianrui Finance as set out in the section headed "Connected Transaction and Continuing Connected Transactions — (c) Deposit and financial services agreements" above, and is approved by the independent Shareholders of the Company. Further, the derivative financial assets as set out in the note 26 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 2018, 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 is important to maintain a good relationship with customers and suppliers. Accordingly, our Group has taken measures to strengthen communication with them 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 2018, 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 and the Environmental, Social and Governance Report.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2018 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 declining demand for cement and clinker in the PRC market.

FUTURE PLAN

In light of the general global economy slowdown which might lead to declining demand for cement and clinker in the PRC market, the Company will take a cautious approach with respect to production expansion and will put in more efforts 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 been engaging Deloitte as its auditor for the past eight 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 2018 to 31 December 2018, 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 2018.

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 three executive Directors. 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 at 31 December 2018, Yu Kuo Company Limited, the controlling shareholder, pledged its 842,247,000 shares (approximately 28.66% of the issued share capital of the Company) held in the Company in total to various financial institutions specified by the institutional lenders in order to fulfill the conditions of securing its own loans from the lenders.

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 by the Company 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 2018.

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 2018 to 31 December 2018, 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 2018, monitored the operation of our Group's key business, and assessed our Group's internal control and financial matters.

Composition of the Board

As at 31 December 2018, the Board comprises eight Directors, including four executive Directors: Ms. Li Fengluan, Mr. Ding Jifeng, Mr. Xu Wuxue and Mr. Li Jiangming; one non-executive Director: Mr. Li Liufa (the Chairman of the Board); and three independent non-executive Directors, being Mr. Kong Xiangzhong, Mr. Wang Ping 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. Ms. Li Fengluan is the spouse of Mr. Li Liufa and the elder sister of Mr. Li Jiangming. 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 2018, our Company has one non-executive Director, being Mr. Li Liufa, who is also the Chairman of the Board, with a term of three years commencing from 31 December 2017.

Independent Non-executive Directors

As at 31 December 2018, the Company has three independent non-executive Directors: Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Du Xiaotang, with a term for a year with effect from 24 December 2018 for Mr. Kong Xiangzhong and Mr. Wang Ping and with effect from 11 June 2018 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 2018, the Board held five meetings (excluding the Board meetings 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	
Ms. Li Fengluan	3/5
Mr. Ding Jifeng	5/5
Mr. Xu Wuxue	5/5
Mr. Li Jiangming	4/5
Non-executive Director	
Mr. Li Liufa	4/5
Independent Non-executive Directors	
Mr. Kong Xiangzhong	5/5
Mr. Wang Ping	5/5
Mr. Du Xiaotang	5/5

As noted above, Ms. Li Fengluan only attended three Board meetings because one of the Board meetings was to engage her as the executive Director, and she was absent from another meeting because she had to abstain from voting due to her material interest; both of Mr. Li Liufa and Mr. Li Jiangming attended four Board meetings because they had to abstain from voting at such Board meeting due to their material interest.

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 Hong Kong 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 one general meeting, being the 2017 Annual General Meeting, for the period from 1 January 2018 to 31 December 2018. The attendance record of Directors is as follows:

List of Directors	Attendance/Number of meetings held
Executive Directors	
Ms. Li Fengluan	1/1
Mr. Ding Jifeng	1/1
Mr. Xu Wuxue	1/1
Mr. Li Jiangming	1/1
Non-executive Director	
Mr. Li Liufa	1/1
Independent Non-executive Directors	
Mr. Kong Xiangzhong	1/1
Mr. Wang Ping	1/1
Mr. Du Xiaotang	1/1

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 (the "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 so that the Directors are able to update or enhance their knowledge to ensure their continuous contribution to the Board of Directors.

For the year ended 31 December 2018, regulatory updates and information relevant to the Company or its business were provided to Mr. Li Liufa, Chairman of the Board and non-executive Director of the Company, Ms. Li Fengluan, Mr. Ding Jifeng, Mr. Xu Wuxue and Mr. Li Jiangming, executive Directors of the Company on a regular basis. Besides, Mr. Li Jiangming attended the seminar for enhancement of continuing professional development organized by the Hong Kong Institute of Chartered Secretaries. Mr. Kong Xiangzhong and Mr. Du Xiaotang, independent non-executive Directors of the Company, attended training for senior management of listed companies held by the Shenzhen Stock Exchange. Mr. Wang Ping, independent non-executive Director, attended training organized by the Hong Kong Institute of Certified Public Accountants for a total of 24 hours.

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 2018 to 31 December 2018, the Company held a total of two Audit Committee meetings, at which it mainly reviewed and approved the annual audit report for 2017 and the interim review report for 2018 issued by Deloitte. Mr. Wang Ping, Mr. Kong Xiangzhong and Mr. Du Xiaotang attended those two meetings.

On 17 March 2019, 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 2018.

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. Li Liufa. Mr. Kong Xiangzhong is the chairman of the Nomination Committee.

For the period from 1 January 2018 to 31 December 2018, the Company held a total of two Nomination Committee meetings, at which it mainly reviewed the structure, number of members and composition of the Board, assessed the independence of the independent non-executive Directors, discussed the retirement by rotation and re-election of each Director and made recommendations in respect of the employment of Ms. Li Fengluan as an executive Director. Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Lv Xing (the alternate director for Mr. Yang Yongzheng) attended those two meetings. Mr. Li Liufa had not been appointed as a member of the Nomination Committee at the time of these two meetings.

The Nomination Policy

The nomination policy (the "Nomination Policy") sets out the nomination procedures, the process and criteria adopted by the Nomination Committee to select and recommend suitable candidates of directorship. In evaluating and selecting any candidate for the directorship, the following criteria should be considered:

- skills, knowledge, experience and professional expertise which are relevant to the operations of the Group;
- diversity aspects under the board diversity policy of the Group;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;
- character and integrity;
- for Independent non-executive Directors, whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules; and
- any potential contributions that the candidate can bring to the Board.

Procedures for Nomination of Directors

Appointment of director

(i) If the Nomination Committee determines that an additional or replacement director is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate, including internal promotion, referral from directors, shareholders, management, advisors of the Company and external executive search firms.

(ii) The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a shareholder of the Company as a nominee for election to the Board and the appointment or re-appointment of directors and succession planning for directors is subject to the approval of the Board.

(iii) On making recommendation, the Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration. In order to be a valid proposal, the proposal must clearly indicate the nominating intention and the candidate's consent to be nominated and the personal profile must incorporate and/or be accompanied by the full particulars of the candidate that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules. If the candidate is proposed to be appointed as an INED, his or her independence shall be assessed in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time.

(iv) The Board shall observe the Board Diversity Policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving board diversity.

Re-election of director

(i) When a retiring director, being eligible, offers himself or herself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring director will be sent to the shareholders of the Company prior to a general meeting in accordance with the Listing Rules.

(ii) If an Independent non-executive Director is subject to the re-election, the Nomination Committee and/or the Board will also assess and consider whether he or she will continue to satisfy the independence requirements as set out in the Listing Rules.

(iii) Each proposed appointment or re-election of a Director shall be assessed and/or considered against the criteria and qualifications set out in the Nomination Policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

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 2018 to 31 December 2018, the Company held a total of two Remuneration Committee meetings, at which it mainly discussed and approved the remuneration policy and structure of all Directors and senior management of the Group, reviewed the remuneration payments of Directors and senior management for 2017 and determined the remuneration of Ms. Li Fengluan, who was appointed as Executive Director. Mr. Du Xiaotang, Mr. Kong Xiangzhong and Mr. Xu Wuxue attended such meetings.

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 who appear in the section headed "Profiles of Directors and Senior Management" in this Annual Report for the year ended 31 December 2018 was classified into one class: remuneration below HK$1,000,000.

DIVIDENDS POLICY

The Board has approved and adopted a dividend policy (the "Dividend Policy"). According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

1. the general financial condition of the Group;
2. the Group's actual and future operations and liquidity position;
3. the Group's future business expansion plans;
4. the Group's debt to equity ratios and the debt level;
5. the retained earnings and distributable reserves of the Group;
6. the general market conditions;
7. the cost of financing; and
8. any other factors that the Board might think appropriate.

Dividends may be declared and paid to the shareholders of the Company by way of cash or by other means that the Board considers appropriate. The declaration and payment of dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Company's articles of association and any other applicable laws and regulations. The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time. The Dividend Policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

INDEPENDENT AUDITOR'S APPOINTMENT AND COMPENSATION

The independent auditor of our Company is Deloitte Touche Tohmatsu. For the year ended 31 December 2018, 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	2.7
Non-audit services	0.8
Total	3.5

The charges paid for non-audit services set at RMB0.8 million. It is the charges provided for performing agreed procedure on specific financial information to the Company at the request of the Audit Committee and issuing of comfort letters.

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 shareholders of the Company at the general meetings.

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 2018, the Directors have selected and applied consistently appropriate accounting policies, have adopted appropriate IFRS 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 2018, are set out in the section headed the "Independent Auditors' Report" in this Annual Report.

JOINT COMPANY SECRETARIES

Mr. Li Jiangming and Ms. Ng Ching Mei are the joint company secretaries of the Company. For their details, please see the section headed "Profiles of Directors and Senior Management".

For the year ended 31 December 2018, Mr. Li and Ms. Ng 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 retiring 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 larryli@ctrcement.com or karencmng@ctrcement.com 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 2018 to 31 December 2018. Our Company has been 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 the 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 63 to 175, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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
Loan renewal rate applied in working capital forecast	
We identified the loan renewal rate applied in working capital forecast assumption as a key audit matter because it is the critical assumption in the Group's assessment on whether the application of going concern assumptions by the Group is appropriate. As at 31 December 2018, the Group recorded an amount of net current liabilities of RMB270,984,000. As disclosed in Note 2 to the consolidated financial statements, the directors of the Company prepared a working capital forecast of the Group assuming the current group's borrowings could be renewed at a rate of 70% based on the Group's historical average loans renewal rate of 80% in the past three years.	Our procedures in relation to the loan renewal rate applied in working capital forecast include: • recalculating the Group's historical average loans renewal rate and understanding the management's basis of using a three-year period for the calculation; • obtaining confirmations from the facilities providers to confirm whether they have identified any incidents which will affect the renewal of the facilities of the relevant group entities; and • reviewing existing loan agreements and related management analysis to identify any instances of breach of loan covenants that could materially impact the loan renewals.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment of a subsidiary	
We identified impairment assessment of property, plant and equipment held by a subsidiary located in Northeast China as a key audit matter due to the significance of the balance of these assets and the significant degree of estimates made by management in the impairment review as disclosed in Note 5 to the consolidated financial statements. As disclosed in Note 18 to the consolidated financial statements, the Group recognised an impairment loss of RMB58,251,000 on these assets during the year ended 31 December 2017 and no further impairment loss or reversal of impairment loss was recognised in the current year. The aggregate net carrying amount of these assets as at 31 December 2018 is RMB337,271,000. Any further impairment loss or reversal of impairment loss could have a significant financial impact on the consolidated financial statements. Management's impairment assessment on these assets requires an estimation of the recoverable amount of the cash-generating units to which these assets belongs.	Our procedures in relation to impairment of the property, plant and equipment included: • understanding the internal controls relevant to the impairment assessment of property, plant and equipment; • evaluating the valuation methodologies and the key assumption of the discount rate, with the assistance of our internal valuation specialists; and • comparing cement price used in the valuation to industry forecasts and comparing the sales volume growth rate and gross profit ratio to historical performance of the relevant subsidiary.

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 issued by the IASB 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
18 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6, 7	**10,060,647**	8,420,551
Cost of sales		**(6,787,159)**	(6,023,657)
Gross profit		**3,273,488**	2,396,894
Other income	8	**549,104**	503,513
Impairment losses, net of reversal	9	**(6,026)**	(5,623)
Gain from changes in fair value of financial assets at fair value through profit or loss	26, 30	**6,132**	451,279
Other gains and losses	10	**(81,666)**	(149,008)
Distribution and selling expenses		**(341,427)**	(340,979)
Administrative expenses		**(434,794)**	(421,099)
Other expenses		**(105,857)**	(79,868)
Share of profit of an associate		**5,624**	4,502
Finance costs	11	**(1,122,006)**	(1,005,586)
Profit before tax		**1,742,572**	1,354,025
Income tax expense	12	**(490,762)**	(361,255)
Profit and total comprehensive income for the year	13	**1,251,810**	992,770
Profit/(loss) and total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**1,212,547**	1,001,764
Non-controlling interests		**39,263**	(8,994)
		1,251,810	992,770

	Notes	Year ended 31 December 2018 RMB	2017 RMB
Earnings per share			
Basic	16	**0.41**	0.37

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	At 31 December 2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**11,295,763**	11,959,295
Long-term deposits	19	**2,410,281**	1,017,138
Prepaid lease payments	20	**849,343**	872,780
Mining rights	21	**590,251**	628,845
Goodwill	22	**307,642**	307,642
Other intangible assets	23	**4,179**	4,989
Interests in associates	24	**268,043**	262,419
Derivative financial instruments	26	**7,588**	—
Deferred tax assets	41	**171,090**	189,285
Pledged bank balances	31	**87,147**	—
Amounts due from an associate	29	**261,702**	—
		16,253,029	15,242,393
CURRENT ASSETS			
Inventories	25	**874,873**	949,263
Trade and other receivables	27	**4,423,920**	3,642,912
Amounts due from associates	29	**944,911**	625,992
Amount due from the ultimate holding company	26	**—**	1,212,344
Financial assets at fair value through profit or loss	30	**43,702**	—
Restricted bank balances	35	**2,000,000**	—
Pledged bank balances	31	**3,301,474**	3,400,433
Cash and bank balances	32	**711,797**	830,744
		12,300,677	10,661,688
CURRENT LIABILITIES			
Trade and other payables	33	**3,684,388**	3,248,716
Contract liabilities	34	**462,096**	—
Other financial liability	35	**2,000,000**	—
Loan from an associate due within one year	36	**900,000**	—
Borrowings due within one year	37	**4,847,606**	5,382,423
Mid-term debentures due within one year	39	**—**	2,369,828
Long-term corporate bonds due within one year	40	**106,056**	2,998,515
Current tax liabilities		**552,872**	418,130
Financial guarantee contracts	38	**18,643**	23,260
		12,571,661	14,440,872
NET CURRENT LIABILITIES		**(270,984)**	(3,779,184)
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,982,045**	11,463,209

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
CAPITAL AND RESERVES			
Share capital	44	**24,183**	24,183
Share premium and reserves		**10,993,491**	9,796,672
Equity attributable to owners of the Company		**11,017,674**	9,820,855
Non-controlling interests	56	**61,446**	114,916
TOTAL EQUITY		**11,079,120**	9,935,771
NON-CURRENT LIABILITIES			
Loan from an associate due after one year	36	**100,000**	—
Borrowings due after one year	37	**2,318,866**	1,074,662
Long-term corporate bonds	40	**2,121,943**	72,305
Deferred tax liabilities	41	**183,256**	195,346
Deferred income	42	**157,548**	166,132
Provision for environmental restoration	43	**21,312**	18,993
		4,902,925	1,527,438
		15,982,045	11,463,209

The consolidated financial statements on pages 63 to 175 were approved and authorised for issue by the board of directors on 18 March 2019 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 2018

	Attributable to owners of the Company									
	Share capital RMB'000	**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 2017	19,505	4,640	789,990	523,216	1,039,916	31,768	5,349,337	7,758,372	(118,682)	7,639,690
Profit/(loss) and total comprehensive income/(expense) for the year	—	—	—	—	—	—	1,001,764	1,001,764	(8,994)	992,770
Statutory reserve appropriation	—	—	—	381,995	—	—	(381,995)	—	—	—
Financial guarantee provided to related parties *(Note 38)*	—	—	—	—	(5,967)	—	—	(5,967)	—	(5,967)
Acquisition of subsidiaries *(Note 52):*										
— Issue of new ordinary shares *(Note 44)*	4,678	1,062,008	—	—	—	—	—	1,066,686	—	1,066,686
— Increase in non-controlling interests	—	—	—	—	—	—	—	—	242,592	242,592
At 31 December 2017	24,183	1,066,648	789,990	905,211	1,033,949	31,768	5,969,106	9,820,855	114,916	9,935,771
Adjustments *(Note 3)*	—	—	—	—	—	—	(14,968)	(14,968)	(595)	(15,563)
At 1 January 2018 (restated)	**24,183**	**1,066,648**	**789,990**	**905,211**	**1,033,949**	**31,768**	**5,954,138**	**9,805,887**	**114,321**	**9,920,208**
Profit and total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**1,212,547**	**1,212,547**	**39,263**	**1,251,810**
Statutory reserve appropriation	**—**	**—**	**—**	**167,466**	**—**	**—**	**(167,466)**	**—**	**—**	**—**
Financial guarantee provided to related parties *(Note 38)*	**—**	**—**	**—**	**—**	**(760)**	**—**	**—**	**(760)**	**—**	**(760)**
Dividend paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(92,138)**	**(92,138)**
At 31 December 2018	**24,183**	**1,066,648**	**789,990**	**1,072,677**	**1,033,189**	**31,768**	**6,999,219**	**11,017,674**	**61,446**	**11,079,120**

Notes:

(i) Capital reserve represents the excess of capital injection over the registered capital of Tianrui Group Cement Company Limited ("Tianrui Cement"), a subsidiary of the Group, upon a group reorganisation in prior years.

(ii) According to the relevant laws in the People's Republic of China (the "PRC"), each of the subsidiaries established in the PRC is required to allocate a portion of its profit after tax 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.

For the year ended 31 December 2018

(iii) Other reserves comprise the following:

(1) Reserve arising from the group reorganisation in 2011: 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, 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 ordinary shares of the Company (the "Shares") were allotted and issued to Yu Kuo Company Limited. As part of the group reorganisation, Yu Kuo Company Limited applied a bridging loan in the net amount of US Dollar87,433,333 (equal to approximately RMB565,516,000) to pay up the Shares. The amount of US Dollar87,433,333 in excess of the par value of 474,526 shares was recognised in the share premium account, and the resulting difference between the paid-in capital of Tianrui Cement amounting to RMB1,397,135,000 after deducting the nominal value of the Shares issued to Yu Kuo Company Limited and the share premium amounting to RMB831,615,000 was recognised in other reserves;

(2) Deemed contribution from Tianrui Group Company Limited ("Tianrui Group") of RMB229,240,000 recognised in 2015;

(3) Fair value of financial guarantee contracts at initial recognition provided to Tianrui Group and its subsidiaries debited to other reserves totaling RMB44,572,000 up to 31 December 2018 (2017: RMB43,812,000); and

(4) The difference between the consideration of the acquisitions of non-controlling interests and the carrying amounts of non-controlling interests and relevant reserves totaling RMB16,906,000 credited to other reserves up to 31 December 2018 (2017: RMB16,906,000).

(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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cash flows from operating activities:		
Profit before tax	**1,742,572**	1,354,025
Adjustments for:		
Release of deferred income	**(8,584)**	(8,585)
Interest income	**(85,538)**	(52,952)
Share of profit of an associate	**(5,624)**	(4,502)
Loss on deemed disposal of partial interest in an associate	**—**	1,606
Gain from changes in fair value of financial assets at fair value through profit or loss	**(6,132)**	(451,279)
Depreciation of property, plant and equipment	**917,742**	924,295
Finance costs recognised in profit or loss	**1,122,006**	1,005,586
Foreign exchange loss/(gain), net	**64,136**	(66,696)
Release of financial guarantee liability	**(5,377)**	(9,582)
Release of prepaid lease payments	**22,973**	22,372
Impairment losses, net of reversal	**6,026**	5,623
Amortisation of mining rights	**38,594**	27,594
Amortisation of other intangible assets	**810**	809
Loss/(gain) on disposal of property, plant and equipment, net	**11,527**	(1,421)
Provision for environmental restoration	**2,550**	1,690
Impairment loss of goodwill	**—**	154,951
Impairment loss of property, plant and equipment	**—**	58,251
Operating cash flows before movements in working capital	**3,817,681**	2,961,785
Movements in working capital:		
Decrease/(increase) in inventories	**74,390**	(128,329)
Increase in trade and other receivables	**(865,994)**	(711,911)
Decrease/(increase) in amounts due from an associate	**64,290**	(302,218)
Increase/(decrease) in trade and other payables	**952,459**	(482,374)
Increase in contract liabilities	**146,249**	—
Increase/(decrease) in discounted bills with recourse	**258,666**	(45,370)
Decrease in provision for environmental restoration	**(231)**	(4,537)
Cash generated from operations	**4,447,510**	1,287,046
Income tax paid	**(343,515)**	(143,520)
Net cash from operating activities	**4,103,995**	1,143,526

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cash flows from investing activities:		
Interest received	**149,855**	61,957
Capital injection for investment in an associate	**—**	(150,000)
Net cash inflows from acquisition of subsidiaries *(Note 52)*	**—**	72,023
Payments for property, plant and equipment	**(629,140)**	(155,155)
Payments for prepaid lease payments	**—**	(3,617)
Payments for mining rights	**—**	(48,545)
Proceeds from disposal of property, plant and equipment	**38,111**	7,259
Deposits paid for acquisition of businesses	**(1,370,000)**	(640,000)
Refund of deposits paid for acquisition of businesses	**310,000**	1,460,121
Purchase of financial assets at fair value through profit or loss	**(42,432)**	—
Compensation from the ultimate holding company *(Note 26)*	**1,212,344**	—
Increase in restricted bank balances	**(2,000,000)**	—
Deposits placed with an associate	**(644,911)**	—
Placement of pledged bank balances	**(4,254,089)**	(4,519,748)
Withdrawal of pledged bank balances	**4,265,901**	4,226,517
Net cash (used in)/from investing activities	**(2,964,361)**	310,812
Cash flows from financing activities:		
Interest paid	**(235,838)**	(1,007,003)
Dividends paid	**(65,091)**	—
New borrowings raised	**6,407,001**	8,461,606
Repayment of borrowings	**(6,719,890)**	(8,355,514)
Advance of loan from an associate	**1,450,000**	—
Repayment of loan from an associate	**(475,422)**	—
Receipt of capital injection fund *(Note 35)*	**2,000,000**	—
Repayment of finance lease obligations	**—**	(28,861)
Repayment of mid-term debentures	**(2,477,957)**	(420,000)
Repayment of long-term corporate bonds	**(1,141,384)**	—
Net cash used in financing activities	**(1,258,581)**	(1,349,772)
Net (decrease)/increase in cash and cash equivalents	**(118,947)**	104,566
Cash and cash equivalents at beginning of year	**830,744**	726,178
Cash and cash equivalents at end of year, represented by cash and bank balances	**711,797**	830,744

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION

China Tianrui Group Cement Company Limited (the "Company") was 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 are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is Cricket Square, Hutchins Drive PO 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 Province, the PRC.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are manufacture and sale of cement, clinker and limestone aggregate (See Note 56). Its immediate holding company is Yu Kuo Company Limited and its ultimate parent as at 31 December 2018 is Tianrui Group Company Limited ("Tianrui Group"), which is controlled by Mr. Li Liufa and Ms. Li Fengluan, a non-executive director and an executive director of the Company, respectively.

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of RMB270,984,000 as at 31 December 2018. The Group's net current liabilities position as at 31 December 2018 was mainly attributable to trade and other payables, other financial liability, loan from an associate, borrowings and corporate bonds due within one year.

In view of these circumstances, the directors of the Company 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. Meanwhile, the Group recorded net operating cash inflows for the years ended 31 December 2018 and 2017.

The directors of the Company have prepared a working capital forecast of the Group covering a period of not less than 12 months from 31 December 2018. Based on the forecast, the sufficiency of the Group's working capital for the next 12 months depends on the Group's ability to obtain the anticipated cash flows from the Group's operating activities, and assuming the current group's borrowings could be renewed at a rate of 70% based on the Group's historical average loans renewal rate of 80% in the past three years. The directors of the Company, after taking into account the reasonably possible changes in the operational performance, the availability of borrowings and the expected renewal of the short-term borrowings, are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due. Accordingly, the directors of the Company consider that the preparation of these consolidated financial statements on a going concern basis is appropriate.

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

3.1 New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

In addition, the Group has early applied the amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of its effective date, 1 January 2019.

Except as described below, the application of the new and 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.

IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and the related interpretations.

The Group recognises revenue from the manufacturing and sale of cement, clinker and limestone aggregate which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 6 and 4 respectively.

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

3.1 New and amendments to IFRSs that are mandatorily effective for the current year (Cont'd)

IFRS 15 Revenue from Contracts with Customers (Cont'd)

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under IFRS 15 at 1 January 2018*
	RMB'000	RMB'000	RMB'000
Trade and other payables	3,248,716	(315,847)	2,932,869
Contract liabilities	—	315,847	315,847

* The amounts in this column are before the adjustments from the application of IFRS 9.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As at 1 January 2018, receipts in advance from customers of RMB315,847,000 previously included in trade and other payables were reclassified as contract liabilities upon application of IFRS 15.

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

3.1 New and amendments to IFRSs that are mandatorily effective for the current year (Cont'd)

IFRS 15 Revenue from Contracts with Customers (Cont'd)

Summary of effects arising from initial application of IFRS 15 (Cont'd)

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported	Adjustments	Amounts without application of IFRS 15
	RMB'000	RMB'000	RMB'000
Impact on the consolidated statement of financial position			
Trade and other payables	3,684,388	462,096	4,146,484
Contract liabilities	462,096	(462,096)	—
Impact on the consolidated statement of cash flows			
Cash flows from operating activities			
Increase in trade and other payables	952,459	146,249	1,098,708
Increase in contract liabilities	146,249	(146,249)	—

IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 *Financial Instruments*, amendments to IFRS 9 *Prepayments Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and financial guarantee contracts); and (3) general hedge accounting.

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

3.1 New and amendments to IFRSs that are mandatorily effective for the current year (Cont'd)

IFRS 9 Financial Instruments and the related amendments (Cont'd)

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 4.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Trade and other receivables measured at amortised cost (previously classified as loans and receivables) RMB'000	Derivative financial instruments RMB'000	Deferred tax assets RMB'000	Retained earnings RMB'000	Non-controlling interests RMB'000
Impact on the consolidated statement of financial position					
Closing balance at 31 December 2017	3,642,912	—	189,285	5,969,106	114,916
Effect arising from initial application of IFRS 9					
Remeasurement:					
Impairment under ECL model *(Note (a))*	(24,689)	—	6,400	(17,694)	(595)
From cost less impairment to fair value *(Note (b))*	—	2,726	—	2,726	—
Opening balance at 1 January 2018	3,618,223	2,726	195,685	5,954,138	114,321

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

3.1 New and amendments to IFRSs that are mandatorily effective for the current year (Cont'd)

IFRS 9 Financial instruments and the related amendments (Cont'd)

Summary of effects arising from initial application of IFRS 9 (Cont'd)

(a) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. Except for those which had been determined as credit impaired under IAS 39, the ECL on trade receivables have been assessed individually with outstanding significant balances, and the remaining balances are assessed collectively using appropriate groupings.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including pledged bank balances, restricted bank balances, bank balances, amounts due from associates and other receivables are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees as detailed in Note 38, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is assessed on 12-month ECL basis.

As at 1 January 2018, additional credit loss allowance of RMB24,689,000 has been recognised against retained earnings. The additional credit loss allowance is charged against trade receivables and other receivables.

The credit loss allowances for trade receivables and other receivables as at 31 December 2017 reconciled to the opening allowances for credit losses as at 1 January 2018 are as follows:

	Trade receivables RMB'000	**Other receivables** RMB'000
At 31 December 2017 — IAS 39	30,480	26,910
Amounts remeasured through opening retained earnings	12,133	12,556
At 1 January 2018	42,613	39,466

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

3.1 New and amendments to IFRSs that are mandatorily effective for the current year (Cont'd)

IFRS 9 Financial instruments and the related amendments (Cont'd)

Summary of effects arising from initial application of IFRS 9 (Cont'd)

(b) Derivative financial instruments

At the date of initial application of IFRS 9, the option to acquire Shanshui Cement (as defined in Note 26) is remeasured at fair value which was previously carried at cost less impairment under IAS 39. The fair value gain of RMB2,726,000 relating to the option was adjusted to derivative financial instruments and retained earnings as at 1 January 2018.

Impacts on opening consolidated statement of financial position arising from the application of all new standards and amendments

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB'000	**IFRS 15** RMB'000	**IFRS 9** RMB'000	**1 January 2018 (Restated)** RMB'000
Non-current assets				
Derivative financial instruments	—	—	2,726	2,726
Deferred tax assets	189,285	—	6,400	195,685
Current assets				
Trade and other receivables	3,642,912	—	(24,689)	3,618,223
Current liabilities				
Trade and other payables	3,248,716	(315,847)	—	2,932,869
Contract liabilities	—	315,847	—	315,847
Capital and reserves				
Retained earnings	5,969,106	—	(14,968)	5,954,138
Non-controlling interests	114,916	—	(595)	114,321

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

3.2 New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015–2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

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. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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

3.2 New and amendments to IFRSs in issue but not yet effective (Cont'd)

IFRS 16 Leases (Cont'd)

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.

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 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 own 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, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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 a 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.

Other than certain requirements which are also applicable to lessor, 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.

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

3.2 New and amendments to IFRSs in issue but not yet effective (Cont'd)

IFRS 16 Leases (Cont'd)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB54,928,000 as disclosed in Note 47. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The principal 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, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combinations

Acquisitions of businesses other than business combination under common control 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, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 group 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 (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) 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 (or group of cash-generating units) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

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 associates 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment in associates (Cont'd)

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. Change in net assets of the associates other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. 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 Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* 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, 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.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) (Cont'd)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) (Cont'd)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

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.

Income from the provision of software service is recognised when the relevant services are rendered.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leases

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.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Taxation

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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.

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.

Intangible assets

Internally generated intangible assets-research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

The recoverable amount of tangible and intangible assets are estimated individually, 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.

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When 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 immediately in profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the 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 of the time value of the money is material).

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 except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- 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
- it is a derivative that is not designated and effective as a hedging instrument.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3) (Cont'd)

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets at amortised cost which are subject to impairment under IFRS 9 and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with Note 3) (Cont'd)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with Note 3) (Cont'd)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with Note 3) (Cont'd)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

Except for financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial assets measured at amortised cost by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified as financial assets at 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 FVTPL

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Cont'd)

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, amount due from the ultimate holding company, pledged bank balances and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables (before application of IFRS 9 on 1 January 2018)

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of loans and receivables (before application of IFRS 9 on 1 January 2018) (Cont'd)

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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, other financial liability, loan from an associate, mid-term debentures, long-term corporate bonds and borrowings, are subsequently measured at amortised cost, using the effective interest method.

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 payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (since 1 January 2018)/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (before application of IFRS 9 on 1 January 2018); and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Non-substantial modifications of financial liabilities (under IFRS 9 since 1 January 2018)

The exchange or modification of terms of a financial liability is considered as non-substantial modification when the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is less than 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Non-substantial modifications of financial liabilities (before application of IFRS 9 on 1 January 2018)

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

Derivative financial instruments

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. Before the application of IFRS 9 on 1 January 2018, 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 under IAS 39.

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 IFRS 9/IAS 39, 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.

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.

Estimated impairment of property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation and impairment, if any. The management of the Group 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 or the event previously causing the impairment no longer exists, the management requires an estimation of recoverable amount of an individual asset or the cash-generating units to which the asset belongs, and has to exercise judgement and make significant degree of estimation in determining the recoverable amount of the assets, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset's 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 cement price, sales volume growth rate, gross profit ratio or discount rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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

Estimated impairment of property, plant and equipment (Cont'd)

For the year ended 31 December 2017, in view of the continuous losses of a subsidiary of the Company located in Northeast China for more than two consecutive years, and there was indication that its property, plant and equipment with an aggregate carrying value of RMB414,612,000 as at 31 December 2017 may suffer an impairment loss, the management of the Group had conducted impairment testing. As a result of the assessment, the management of the Group considers that there is an impairment of RMB58,251,000 for property, plant and equipment in respect of that subsidiary as at 31 December 2017. Further details are set out in Note 18. In determining whether there is indication that the above property, plant and equipment has suffered a further impairment loss or the event previously causing the impairment no longer exists in the current year, the management of the Group has to exercise judgement and make estimation, in particular, cement price, sales volume growth rate, gross profit ratio and discount rate.

As at 31 December 2018, the carrying amount of the Group's property, plant and equipment is RMB11,295,763,000 (2017: RMB11,959,295,000). Details of the impairment of property, plant and equipment are disclosed in Note 18.

Impairment of goodwill

Determining whether goodwill is impaired requires a significant degree of estimates made by the management in determining 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 recoverable amount has been determined by a value in use calculation of the relevant cash-generating units, to which goodwill has been allocated, primarily based on the cash flow projections and a discount rate. The key assumptions and inputs used in cash flow projections including cement price, gross profit ratio, volume of sales and growth rate, and discount rate. The value in use 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 2018, the carrying amount of goodwill is RMB307,642,000 (2017: RMB307,642,000). Details are disclosed in Note 22.

6. REVENUE

Disaggregation of revenue from contracts with customers:

	Year ended 31 December 2018 RMB'000
Sales of cement	**9,100,016**
Sales of clinker	**813,292**
Sales of limestone aggregate	**147,339**
	10,060,647
Timing of revenue recognition:	
A point in time	**10,060,647**

The Group sells cement, clinker and limestone aggregate directly to external customers and revenue is recognised when control of goods has transferred to the customers, being when the goods have been delivered to the customers for the current year. The normal credit term is 180 days upon delivery.

The Group receives deposits from certain customers when they sign the sale and purchase agreements. Such advance payments are recorded as contract liabilities and being recognised when the control of the goods is transferred to the customer.

An analysis of the Group's revenue for the year ended 31 December 2017 is as below:

	Year ended 31 December 2017 RMB'000
Sales of cement	7,868,229
Sales of clinker	552,322
	8,420,551

7. SEGMENT INFORMATION

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

The Group's chief operating decision maker 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 Year ended 31 December		Segment profit/(loss) Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000	**2018** **RMB'000**	2017 RMB'000
Central China	**7,684,622**	6,444,923	**1,732,865**	1,125,241
Northeast China	**2,376,025**	1,975,628	**160,595**	(228,926)
Total	**10,060,647**	8,420,551	**1,893,460**	896,315
Unallocated corporate administrative expenses			**(92,884)**	(39,471)
Unallocated other (losses)/gains, net			**(64,136)**	45,902
Gain from changes in fair value of financial assets at FVTPL			**6,132**	451,279
Profit before tax			**1,742,572**	1,354,025

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 tax without allocation of certain corporate administrative expenses including directors' emoluments, certain other gains and losses, and gain from changes in fair value of financial assets at FVTPL.

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

7. SEGMENT INFORMATION (Cont'd)

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

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
SEGMENT ASSETS		
Central China	**22,272,869**	18,139,813
Northeast China	**5,698,918**	6,036,410
Total segment assets	**27,971,787**	24,176,223
Interests in associates	**268,043**	262,419
Amount due from the ultimate holding company	**—**	1,212,344
Financial assets at FVTPL	**43,702**	—
Derivative financial instruments	**7,588**	—
Deferred tax assets	**171,090**	189,285
Unallocated other receivables	**20,197**	9,793
Unallocated cash and bank balances	**71,299**	54,017
Total assets	**28,553,706**	25,904,081
SEGMENT LIABILITIES		
Central China	**12,381,332**	11,630,341
Northeast China	**4,321,860**	3,713,036
Total segment liabilities	**16,703,192**	15,343,377
Deferred tax liabilities	**183,256**	195,346
Current tax liabilities	**552,872**	418,130
Unallocated other payables	**35,266**	11,457
Total liabilities	**17,474,586**	15,968,310

7. SEGMENT INFORMATION (Cont'd)

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 instruments, financial assets at FVTPL, amount due from the ultimate holding company, interests in associates, deferred tax assets, certain unallocated other receivables and cash and bank balances; and

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

Other segment information

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

For the year ended 31 December 2018

	Central China RMB'000	Northeast China RMB'000	Total RMB'000
Additions to property, plant and equipment	278,429	25,419	303,848
Finance costs	842,327	279,679	1,122,006
Provision for environmental restoration	2,180	370	2,550
Depreciation and amortisation before capitalisation	662,816	317,303	980,119
Impairment loss/(reversal of impairment loss), net	7,281	(1,255)	6,026
Loss/(gain) on disposal of property, plant and equipment, net	14,342	(2,815)	11,527
Value-added tax refund	(335,445)	(47,269)	(382,714)
Incentive subsidies	(3,210)	(9,668)	(12,878)
Interest income on bank balances	(79,202)	(6,336)	(85,538)

7. SEGMENT INFORMATION (Cont'd)

Other segment information (Cont'd)

For the year ended 31 December 2017

	Central China RMB'000	Northeast China RMB'000	Total RMB'000
Additions to property, plant and equipment	128,899	40,002	168,901
Additions to prepaid lease payments	165	3,452	3,617
Additions to mining rights	27,075	334,182	361,257
Impairment loss on goodwill	—	154,951	154,951
Impairment loss on property, plant and equipment	—	58,251	58,251
Finance costs	731,618	273,968	1,005,586
Provision for environmental restoration	1,307	383	1,690
Depreciation and amortisation before capitalisation	708,518	266,552	975,070
(Reversal of provision)/provision for allowance for bad and doubtful debts, net	(949)	6,572	5,623
Gain on disposal of property, plant and equipment, net	(1,001)	(420)	(1,421)
Value-added tax refund	(268,447)	(38,356)	(306,803)
Incentive subsidies	(5,444)	(4,785)	(10,229)
Interest income on bank balances	(43,564)	(9,388)	(52,952)

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 years ended 31 December 2018 and 2017.

8. OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Value-added tax refund *(Note (i))*	**382,714**	306,803
Incentive subsidies *(Note (ii))*	**12,878**	10,229
Interest income on bank balances	**85,538**	52,952
Rental income	**3,580**	2,615
Release of deferred income *(Note 42)*	**8,584**	8,585
Release of financial guarantee liability	**5,377**	9,582
Income from sundry operations *(Note (iii))*	**47,745**	93,268
Software service income *(Note (iv))*	**2,416**	18,803
Others	**272**	676
	549,104	503,513

Notes:

(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 and recognised upon receipt. There are no unfulfilled conditions or contingencies relating to these subsidies.

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

(iv) Software service income is generated from the provision of software development services.

9. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Impairment losses recognised on:		
Trade receivables — goods and services	**1,612**	4,532
Other receivables	**4,414**	1,091
	6,026	5,623

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 51.

10. OTHER GAINS AND LOSSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Foreign exchange loss/(gain), net	**64,136**	(66,696)
Impairment loss on goodwill	**—**	154,951
Impairment loss on property, plant and equipment	**—**	58,251
Loss/(gain) on disposal of property, plant and equipment, net	**11,527**	(1,421)
Loss on deemed disposal of partial interest in an associate	**—**	1,606
Others	**6,003**	2,317
	81,666	149,008

11. FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest on:		
Bank borrowings	**540,353**	402,328
Finance leases	**—**	680
Bills discounted with recourse*	**161,207**	111,256
Mid-term debentures	**108,129**	292,957
Long-term corporate bonds	**295,077**	206,120
Loan from an associate	**25,422**	—
	1,130,188	1,013,341
Less: amounts capitalised in the cost of qualifying assets	**(8,182)**	(7,755)
	1,122,006	1,005,586

* Interest on bills discounted with recourse includes interest on discounted bills issued among subsidiaries of the Group for intra-group transactions of RMB48,264,000 (2017: RMB32,532,000).

The borrowing costs on general borrowing pool capitalised are calculated by applying capitalisation rate of 5.87% per annum for the year ended 31 December 2018 (2017: 5.83% per annum).

12. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**487,078**	283,112
Overprovision in prior years:		
EIT	**(8,821)**	(4,071)
Deferred tax *(Note 41)*	**12,505**	82,214
	490,762	361,255

12. INCOME TAX EXPENSE (Cont'd)

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 PRC law 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% (2017: 25%).

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before tax	**1,742,572**	1,354,025
Tax at the applicable rate of 25% (2017: 25%)	**435,643**	338,506
Tax effect of share of profit of an associate	**(1,406)**	(1,125)
Tax effect of income not taxable for tax purpose	**(1,216)**	(112,820)
Tax effect of expenses that are not deductible	**44,291**	39,839
Tax effect of tax losses not recognised	**20,761**	28,078
Income tax at concessionary rate	**(254)**	—
Tax effect of deductible temporary differences not recognised	**1,583**	16,975
Withholding tax	**—**	121,234
Overprovision in prior years	**(8,821)**	(4,071)
Utilisation of tax losses previously not recognised	**(580)**	(65,618)
Others	**761**	257
Income tax expense for the year	**490,762**	361,255

13. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**917,742**	924,295
Release of prepaid lease payments	**22,973**	22,372
Amortisation of mining rights, included in cost of sales	**38,594**	27,594
Amortisation of other intangible assets, included in cost of sales	**810**	809
Total depreciation and amortisation	**980,119**	975,070
Less: Amounts capitalised to inventories	**(632,673)**	(707,973)
Amounts included in other expenses *(note)*	**(57,135)**	(31,493)
	290,311	235,604
Cost of inventories recognised as an expense	**6,787,159**	6,023,657
Employee benefits expense (including contributions to retirement benefit scheme, and directors' emoluments)	**457,831**	418,629
Less: Amounts capitalised to inventories	**(180,961)**	(163,856)
	276,870	254,773
Auditor's remuneration	**2,700**	2,700

Note:

Depreciation and amortisation amounting to RMB57,135,000 (2017: RMB31,493,000) 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.

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors of the Company were as follows:

	2018				2017			
	Fee	Salaries and other allowances	Contributions to retirement benefit schemes	Total emoluments	Fee	Salaries and other allowances	Contributions to retirement benefit schemes	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Mr. Xu Wuxue	—	402	6	408	—	402	8	410
Mr. Li Jiangming	—	421	6	427	—	651	8	659
Mr. Ding Jifeng *(note (iv))*	—	451	11	462	—	445	8	453
Ms. Li Fengluan *(note (i))*	—	454	—	454	—	—	—	—
	—	1,728	23	1,751	—	1,498	24	1,522
Non-executive directors								
Mr. Li Liufa	—	—	—	—	—	—	—	—
Mr. Li Heping *(note (ii))*	—	—	—	—	—	—	—	—
Mr. Yang Yongzheng *(note (iii))*	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Independent non-executive directors								
Mr. Kong Xiangzhong	200	—	—	200	—	—	—	—
Mr. Wang Ping	210	—	—	210	201	—	—	201
Mr. Du Xiao Tang	210	—	—	210	201	—	—	201
	620	—	—	620	402	—	—	402
Total	620	1,728	23	2,371	402	1,498	24	1,924

Notes:

(i) Ms. Li Fengluan was appointed as an executive director of the Company on 18 January 2018.

(ii) Mr. Li Heping resigned as a non-executive director of the Company on 18 January 2018.

(iii) Mr. Yang Yongzheng resigned as a non-executive director of the Company on 15 June 2018.

(iv) Mr. Ding Jifeng was appointed as an executive director of the Company on 15 May 2017.

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

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

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

The chief executive of the Company is not appointed. In the meantime, the board of directors of the Company established an executive committee, which composed of two executive directors and top management members of the Group whose emoluments has been disclosed in Note 49.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

15. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals included four (2017: three) directors (details of whose emoluments are set out in Note 14 above), the emoluments of the remaining one (2017: two) highest paid individuals for the year were as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other allowances	**420**	754
Performance related incentive payments	**31**	74
Retirement benefit schemes contributions	**6**	15
	457	843

The emolument of each of the above employees in both years is below HK$1,000,000 (equivalent to approximately RMB876,200).

No emoluments were paid by the Group to the directors of the Company 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.

The performance related incentive payment is determined based on the employee's contribution to the operating results of the Group for each of the years ended 31 December 2018 and 2017.

16. EARNINGS PER SHARE

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company	**1,212,547**	1,001,764

	2018	2017
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,938,282**	2,705,662

No diluted earnings per share is presented for both 2018 and 2017 as there were no potential ordinary shares in issue for both 2018 and 2017.

17. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2018, nor has any dividend been proposed since the end of the reporting period (2017: Nil).

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Stripping costs RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2017	7,377,428	7,524,218	128,197	122,775	1,782,825	234,300	17,169,743
Additions	3,207	14,814	3,452	3,635	4,475	139,318	168,901
Acquisition of subsidiaries *(Note 52)*	473,373	336,746	16,052	1,217	—	47,711	875,099
Disposals	—	(23,600)	(11,078)	(1,038)	—	—	(35,716)
Transfer	8,704	86,438	10,378	469	—	(105,989)	—
At 31 December 2017	7,862,712	7,938,616	147,001	127,058	1,787,300	315,340	18,178,027
Additions	3,464	57,674	13,239	1,599	1,455	226,417	303,848
Disposals	(22,640)	(94,041)	(42,442)	(659)	—	(56)	(159,838)
Transfer	26,308	25,594	1,491	177	—	(53,570)	—
At 31 December 2018	7,869,844	7,927,843	119,289	128,175	1,788,755	488,131	18,322,037
ACCUMULATED DEPRECIATION							
At 1 January 2017	1,421,618	3,320,027	124,208	99,292	300,919	—	5,266,064
Provided for the year	264,127	527,120	8,206	10,591	114,251	—	924,295
Eliminated on disposals	—	(20,168)	(8,724)	(986)	—	—	(29,878)
At 31 December 2017	1,685,745	3,826,979	123,690	108,897	415,170	—	6,160,481
Provided for the year	271,672	509,569	14,166	6,954	115,381	—	917,742
Eliminated on disposals	(4,884)	(73,698)	(31,174)	(444)	—	—	(110,200)
At 31 December 2018	1,952,533	4,262,850	106,682	115,407	530,551	—	6,968,023
ACCUMULATED IMPAIRMENT							
At 1 January 2017	—	—	—	—	—	—	—
Provided for the year	—	58,251	—	—	—	—	58,251
At 31 December 2017 and 2018	—	58,251	—	—	—	—	58,251
NET CARRYING AMOUNT							
At 31 December 2017	6,176,967	4,053,386	23,311	18,161	1,372,130	315,340	11,959,295
At 31 December 2018	5,917,311	3,606,742	12,607	12,768	1,258,204	488,131	11,295,763

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 to 30 years
Plant and machinery	5 to 15 years
Motor vehicles	5 to 10 years
Office equipment	5 years

18. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Stripping costs are depreciated on a straight-line basis over their estimated useful lives ranged from 10 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 mines. 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

For the year ended 31 December 2017, in view of the continuous losses of a subsidiary of the Company located in Northeast China for more than two consecutive years, and there was indication that its property, plant and equipment with an aggregate carrying value of RMB414,612,000 as at 31 December 2017 may suffer an impairment loss, the management of the Group had conducted impairment testing. As a result of the assessment, the management of the Group considers that there is an impairment of RMB58,251,000 for property, plant and equipment in respect of that subsidiary as at 31 December 2017.

The aggregate carrying amount of the above property, plant and equipment as at 31 December 2018 is RMB337,271,000. The recoverable amount of the cash-generating unit ("CGU") to which the such property, plant and equipment belongs has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering the following 5 years with an annual cement price growth rate of 2% (2017: 2%) and sales volume growth rate of 10% (2017: 15%) for the first year and no volume growth for the remaining 4 years (2017: Nil), and pre-tax discount rate is 13.5% as at 31 December 2018 (2017: 14%). The above growth rates are based on the industry growth forecasts and do not exceed the average medium-term growth rate for the industry. The cash flows beyond the five-year period are extrapolated using zero growth rate. Another key assumption for the value in use calculation is the budgeted gross profit ratio, which is determined based on the CGU's past performance and management expectations for the market development.

Based on management's assessment, there is no indication that the above property, plant and equipment have suffered a further impairment loss or the event previously causing the impairment no longer exists in the current year.

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 45.

The carrying amounts of buildings, which the application to obtain the ownership certificates is still in process, are approximately RMB602,376,000 as at 31 December 2018 (2017: RMB628,738,000).

19. LONG-TERM DEPOSITS

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Deposits paid for acquiring property, plant and equipment, and land use rights	**400,281**	67,138
Deposits and advances paid for acquisition of businesses *(Note)*	**2,010,000**	950,000
	2,410,281	1,017,138

Notes:

These deposits and advances relate to the acquisition of certain businesses which are expected to be completed in the coming few years. The balances mainly included:

(i) an aggregate deposit of RMB990,000,000 (2017: Nil) paid for the proposed acquisitions of the controlling interests of two cement production companies operates in the PRC;

(ii) deposits of RMB530,000,000 (2017: RMB340,000,000) paid for the proposed acquisition of the controlling interests in a company engages in the manufacture and sale of clinker in the PRC; and

(iii) deposits of RMB190,000,000 (2017: Nil) paid for the proposed acquisition of the controlling interests in a transportation company in the PRC.

During the year, deposits of RMB310,000,000 (2017: RMB1,460,121,000) were refunded to the Group from the relevant potential investees due to the termination of acquisitions.

20. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2017	822,815
Additions	3,617
Acquisition of a subsidiary *(Note 52)*	91,231
Released to profit or loss	(22,372)
At 31 December 2017	895,291
Released to profit or loss	(22,973)
At 31 December 2018	872,318

Analysis for reporting purposes as:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets included in trade and other receivables *(Note 27)*	**22,975**	22,511
Non-current assets	**849,343**	872,780
	872,318	895,291

Prepaid lease payments are amortised over the lease term of the respective leases. The remaining lease periods range from approximately 1 to 44 years.

The carrying amounts of land use rights, of which certificates have yet to obtain amounted to approximately RMB20,879,000 as at 31 December 2018 (2017: RMB35,974,000).

Details of the prepaid lease payments pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 45.

21. MINING RIGHTS

	RMB'000
COST	
At 1 January 2017	361,277
Additions	361,257
Acquisition of subsidiaries *(Note 52)*	45,280
At 31 December 2017 and 2018	767,814
ACCUMULATED AMORTISATION	
At 1 January 2017	111,375
Amortisation during the year	27,594
At 31 December 2017	138,969
Amortisation during the year	38,594
At 31 December 2018	177,563
NET CARRYING AMOUNT	
At 31 December 2017	628,845
At 31 December 2018	590,251

The above mining rights are related to limestone sites located in the PRC and amortised over their respective estimated useful lives. The estimated useful lives of the mining range from 10 to 33 years.

Details of the mining rights pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 45.

22. GOODWILL

	2018 RMB'000	2017 RMB'000
CARRYING AMOUNT		
At 1 January	**307,642**	275,489
Impairment	—	(154,951)
Acquisition of subsidiaries *(Note 52)*	—	187,104
At 31 December	**307,642**	307,642

22. GOODWILL (Cont'd)

For the purposes of impairment testing, goodwill has been allocated to 12 cash generating units ("CGUs") or group of CGUs, comprising 14 subsidiaries.

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

	At 31 December	
	2018 RMB'000	2017 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 Chengxing Cement Company Limited (遼陽天瑞誠興水泥有限公司)	**13,628**	13,628
Liaoyang Tianrui Liaota Cement Company Limited (遼陽天瑞遼塔水泥有限公司), Liaoyang Tianrui Liaodong Cement Company Limited (遼陽天瑞遼東水泥有限公司) and Liaoyang Tianrui Liaota Mining Company Limited (遼陽天瑞遼塔礦業有限公司)	**29,284**	29,284
Xinyang Tianrui Cement Company Limited (信陽天瑞水泥有限公司)	**16,624**	16,624
Shenyang Tiger Cement Company Limited (瀋陽老虎水泥有限公司)	**3,974**	3,974
Haicheng the First Cement Company Limited (海城市第一水泥有限公司)	**29,249**	29,249
Haicheng Tianying Construction Stone Mining Company Limited (海城市天鷹建築石材採掘有限公司)	**5,637**	5,637
Panjin Jinrun Cement Company Limited (盤錦金潤水泥有限公司)	**3,178**	3,178
Henan Yongan Cement Company Limited (河南永安水泥有限責任公司) ("Yongan Cement").	**126,293**	126,293
Tianrui Xindeng Zhengzhou Cement Company Limited (天瑞新登鄭州水泥有限公司) ("Xindeng Cement")	**60,811**	60,811
	307,642	307,642

22. 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 subsidiaries covering the following 5 years with an annual sales price growth rate ranging from 2% to 10% and annual sales volume growth rate ranging from nil to 10%, and pre-tax discount rate ranging from 12.5% to 14% as at 31 December 2018 (2017: 12% to 14%). The above growth rates are estimated based on the industry growth forecasts and do 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 (2017: zero). Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows in the cash flow projections include budgeted sales volume and cement price, and gross profit ratio, which are determined based on the CGUs' past performance and management expectations for the market development.

Based on the above assessment, the directors of the Company consider that there is no impairment of any of its CGUs containing goodwill as at 31 December 2018.

In the prior year, the Group recognised an aggregate impairment loss of RMB154,951,000 in relation to goodwill arising on acquisition of 4 subsidiaries.

23. OTHER INTANGIBLE ASSETS

	Operating lease contracts RMB'000
COST	
At 1 January 2017, 31 December 2017 and 2018	9,353
ACCUMULATED AMORTISATION	
At 1 January 2017	3,555
Amortisation	809
At 31 December 2017	4,364
Amortisation	810
At 31 December 2018	5,174
CARRYING AMOUNT	
At 31 December 2017	4,989
At 31 December 2018	4,179

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

24. INTERESTS IN ASSOCIATES

	At 31 December	
	2018 RMB'000	2017 RMB'000
Cost of investment in associates	**375,000**	375,000
Share of post-acquisition losses and other comprehensive expense	**(106,957)**	(112,581)
	268,043	262,419

24. INTERESTS IN ASSOCIATES (Cont'd)

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

Name of company	Place of establishment and operation	Issued and fully paid share capital/ registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
			2018 %	2017 %	
Pingdingshan Ruiping Shilong Cement Company Limited ("Pingdingshan") 平頂山瑞平石龍水泥有限公司	The PRC	RMB300,000,000	**40**	40	Manufacture and sale of clinker in the PRC
Tianrui Group Finance Company Limited ("Tianrui Finance") 天瑞集團財務有限公司	The PRC	RMB1,000,000,000	**25.5**	25.5	Provision of financing and relevant services in the PRC

On 27 June 2017, the registered capital of Tianrui Finance has been increased from RMB300 million to RMB1 billion, pursuant to which the Group contributed RMB150 million and the other shareholders contributed RMB550 million to Tianrui Finance, respectively. As a result of the capital injection, the proportion of ownership interest and voting right of the Group had decreased from 35% to 25.5%.

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs.

All associates are accounted for using the equity method in these financial statements.

Pingdingshan

	At 31 December	
	2018 RMB'000	2017 RMB'000
Current assets	**260,552**	197,721
Non-current assets	**427,803**	505,372
Current liabilities	**(1,181,954)**	(1,200,061)
Net liabilities	**(493,599)**	(496,968)

24. INTERESTS IN ASSOCIATES (Cont'd)

Pingdingshan (Cont'd)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**497,363**	444,366
Profit/(loss) and total comprehensive income/(expense) for the year	**3,369**	(965)

The Group has discontinued recognition of its share of further losses of the associate upon the limit of its interests in 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:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Unrecognised share of loss of the associate	**—**	(386)
Accumulated unrecognised share of loss of the associate	**(197,466)**	(198,814)

24. INTERESTS IN ASSOCIATES (Cont'd)

Tianrui Finance

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets	**1,425,305**	844,907
Non-current assets	**97,508**	295,502
Current liabilities	**(471,665)**	(111,314)
Net assets	**1,051,148**	1,029,095

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**56,977**	43,559
Profit and total comprehensive income for the year	**22,052**	16,173

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

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Net assets	**1,051,148**	1,029,095
Proportion of the Group's ownership interest in the associate	**25.5%**	25.5%
Carrying amount of the Group's interest in the associate	**268,043**	262,419

25. INVENTORIES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials and consumables	**619,065**	576,249
Work-in-progress	**13,972**	14,320
Finished goods	**241,836**	358,694
	874,873	949,263

26. DERIVATIVE FINANCIAL INSTRUMENTS

	RMB'000
Derivative financial assets	
Closing balance at 31 December 2017	—
Effect arising from initial application of IFRS 9 *(Note 3)*	2,726
Opening balance at 1 January 2018	2,726
Gain from changes in fair value	4,862
At 31 December 2018, at fair value	7,588

The Group and Tianrui Group, controlled by Mr. Li Liufa, a non-executive director of the Company, entered into an 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. 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").

26. DERIVATIVE FINANCIAL ASSETS (Cont'd)

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 defined in the Amended Non-competition Deed) 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.

During the year ended 31 December 2015, Tianrui Group has acquired certain shares of four companies including 15.03% equity interests in 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, 28.16% equity interests in China ShanShui Cement Group Limited ("Shanshui Cement"), a company listed on the Stock Exchange, 55% equity interests in Xindeng Cement and 100% equity interests in Yongan Cement. These companies mainly engage in cement related businesses and hence fulfilled the definition of New Business pursuant to the Amended Non-competition Deed. 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 Henan Tongli, Yongan Cement and Xindeng Cement as disclosed below, the Group has not exercised the option to acquire the equity interests in Shanshui Cement up to 31 December 2018.

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 during the year ended 31 December 2015. The changes in fair value of the options totaling RMB451,279,000 was recognised in profit or loss in the year ended 31 December 2017.

26. DERIVATIVE FINANCIAL ASSETS (Cont'd)

In January 2017, the Company acquired 100% equity interests in Yongan Cement and 55% equity interests in Xindeng Cement held by Tianrui Group at a purchase consideration of RMB919,000,000, which is less than the original acquisition consideration incurred by Tianrui Group and settled by allotment and issue of 537,381,647 new ordinary shares of the Company. The acquisition was completed on 7 June 2017 upon the issue of 537,381,647 new ordinary shares at market price of HK$2.28 each of the Company to Tianrui Group to settle the above purchase consideration. Details of the acquisitions are set out in Note 52.

On 9 February 2017, the Board of Directors of the Company consented that Tianrui Group could dispose of total 15.03% equity interests of Henan Tongli, subject to the condition that if the equity interests were disposed of, the related gains from the disposal of the equity interests will be treated as a compensation to the Group. Tianrui Group disposed of 15.03% equity interests in Henan Tongli in 2017 and the related compensation to the Group amounted to RMB1,212,344,000 as at 31 December 2017. On 28 January 2018, Tianrui Group and the Company entered into a settlement agreement in which both parties agreed Tianrui Group to settle the above compensation through payments to a designated bank account of a PRC bank. The bank account is held by a PRC wholly-owned subsidiary of the Company. The actual payments were made on 11 March 2018.

In respect of the option to acquire the equity interests in Shanshui Cement, the fair value as at 31 December 2018 is RMB7,588,000, with the changes in the fair value during the year of RMB4,862,000. The details for the fair value measurement of the options are detailed in Note 51.3.

The trading of the shares of Shanshui Cement has been suspended since April 2015 due to the public float fallen below 25% as required under the Listing Rules. On 30 October 2018, Shanshui Cement completed the issuance of the new shares and fulfilled the resumption of trading conditions set out by the Stock Exchange. As such, Shanshui Cement has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect on 31 October 2018.

27. TRADE AND OTHER RECEIVABLES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**306,718**	279,292
Less: allowances for credit losses	**(44,225)**	(30,480)
	262,493	248,812
Other receivables	**425,569**	368,149
Less: allowances for credit losses	**(43,880)**	(26,910)
	381,689	341,239
Bills receivables *(Note)*	**890,674**	725,360
Bills endorsed to suppliers *(Note)*	**2,239,954**	1,770,466
Prepayments to suppliers	**533,069**	446,032
Value-added tax refund receivables	**25,826**	16,226
Prepayments for various taxes	**67,240**	72,266
Prepaid lease payments *(Note 20)*	**22,975**	22,511
	4,423,920	3,642,912

Note:

Bills receivables amounted to RMB788,312,000 as at 31 December 2018 (2017: RMB685,697,000) were discounted to banks to obtain borrowings of which RMB470,000,000 (2017: RMB633,000,000) relates to bills receivables issued among subsidiaries of the Group for intra-group transactions. (See Notes 28 and 37)

In addition to the above, the Group has also endorsed bills receivables arising from intra-group transactions to suppliers amounting to RMB2,778,685,000 (2017: RMB1,668,300,000) as at the end of the reporting period. The bills receivables and related payables issued between group entities were fully eliminated in the consolidated financial statements.

All bills received by the Group are with a maturity period of less than one year.

27. TRADE AND OTHER RECEIVABLES (Cont'd)

The credit term granted to customers is normally 180 days upon delivery of goods. The aged analysis of the Group's trade receivables (net of allowances for credit losses) prepared based on the goods delivery date at the end of each reporting period is as follows:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Within 90 days	**181,172**	160,313
91–180 days	**37,554**	17,225
181–360 days	**17,542**	31,581
1–2 years	**23,188**	38,846
Over 2 years	**3,037**	847
Total	**262,493**	248,812

An aging analysis of trade receivables which are past due but not impaired as at 31 December 2017 was as follows:

	At 31 December
	2017
	RMB'000
Past due:	
181-360 days	31,581
Over 1 year	39,693
Total	71,274

The Group does not hold any collateral over the above 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 31 December 2017.

27. TRADE AND OTHER RECEIVABLES (Cont'd)

Movements in the allowance for bad and doubtful debts during the year ended 31 December 2017

	RMB'000
At 1 January	51,767
Provided for during the year	23,710
Reversed during the year	(18,087)
At 31 December	57,390

As at 31 December 2017, the allowance for bad and doubtful debts were related to trade receivables amounting to RMB30,480,000 and other receivables amounting to RMB26,910,000, which were considered as uncollectible.

Details of bills receivables pledged by the Group to secure the bank borrowings granted to the Group are set out in Note 45.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 51.

28. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2018, bills receivables with an aggregate carrying amount of RMB318,312,000 (31 December 2017: RMB52,697,000) were transferred to banks by discounting those receivables on a full recourse basis and the carrying amount of the associated liability was RMB308,867,000 (31 December 2017: RMB50,201,000). 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 37). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2018, bills receivables with an aggregate carrying amount of RMB2,239,954,000 (31 December 2017: RMB1,770,466,000) 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 and the related payables.

28. TRANSFERS OF FINANCIAL ASSETS (Cont'd)

In addition, bills receivables issued among subsidiaries of the Group for intra-group transactions amounting to RMB470,000,000 (31 December 2017: RMB633,000,000) were transferred to banks by discounting those receivables on a full recourse basis to secure bank borrowings amounting to RMB450,074,000 (31 December 2017: RMB601,776,000) (see Note 37) and these bills receivables and the related intra-group payables have been eliminated in the consolidated financial statements.

Bills receivables issued among subsidiaries of the Group for intra-group transactions amounting to RMB2,778,685,000 (2017: RMB1,668,300,000) were endorsed to suppliers on a full recourse basis and these bills receivables and the related intra-group payables have been eliminated in the consolidated financial statements.

29. AMOUNTS DUE FROM ASSOCIATES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Advance payments to Pingdingshan for the purchase of goods	**561,702**	625,992
Deposits placed with Tianrui Finance, a non-bank financial institution	**644,911**	—
	1,206,613	625,992
Less: Amounts shown under non-current assets*	**(261,702)**	—
Amounts shown under current assets	**944,911**	625,992

* Advance payments for the purchase of goods expected to be utilised after one year.

The deposits placed with Tianrui Finance carry interest rates ranging from 1.15% and 1.5% per annum as at 31 December 2018.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31 December	
	2018	2017
	RMB'000	RMB'000
PRC investment fund, at fair value	**43,702**	—

The PRC investment fund is held for trading purpose and the gain from the changes in fair value during the year amounting to RMB1,270,000.

31. PLEDGED BANK BALANCES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Bank balances pledged for:		
Bank borrowings granted to the Group	**579,886**	584,204
Trade facilities such as bills payables and bankers' guarantee *(Note 45)*	**2,721,588**	2,748,602
Restoration of limestone mines	**87,147**	67,627
	3,388,621	3,400,433
Balances classified under current assets	**(3,301,474)**	(3,400,433)
Balances classified under non-current assets	**87,147**	—

The pledged bank balances carry market interest rates ranging from 0.3% to 2.1% per annum as at 31 December 2018 (31 December 2017: 0.3% to 2.1% per annum).

32. CASH AND BANK BALANCES

The amounts represent cash and bank balances held by the Group. As at 31 December 2018, bank balances carry market interest rates ranging from 0.3% and 1.5% per annum (31 December 2017: 0.3% and 1.5% per annum).

33. TRADE AND OTHER PAYABLES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables	**1,054,681**	964,952
Bills payables	**1,904,300**	1,261,300
Construction costs payables	**364,948**	357,097
Advances from customers	**—**	315,847
Other advances	**110,566**	4,871
Other tax payables	**53,858**	53,267
Dividend payable to non-controlling interests	**27,047**	—
Other payables and accrued expenses	**168,988**	291,382
	3,684,388	3,248,716

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

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Within 90 days	**506,694**	579,062
91–180 days	**161,883**	118,834
181–365 days	**187,038**	82,221
Over 1 year	**199,066**	184,835
Total	**1,054,681**	964,952

The Group's bills payables are normally with maturity period ranging from 1 month to 1 year.

34. CONTRACT LIABILITIES

	At 31 December 2018 RMB'000	At 1 January 2018* RMB'000
Receipts in advance from customers for the sales of cement	**462,096**	315,847

* The amounts in this column are after the adjustments from the application of IFRS 15.

The revenue recognised during the year ended 31 December 2018 relates to carried-forward contract liabilities in relation to sales of goods as at 1 January 2018 amounted to RMB315,847,000.

35. RESTRICTED BANK BALANCES/OTHER FINANCIAL LIABILITY

On 29 December 2018, the Group and CCB Financial Asset Investment Co., Ltd ("CCB") entered into a capital injection agreement, share repurchase agreement and a supplementary agreement (collectively the "Agreements") pursuant to which CCB conditionally agreed to inject capital into five wholly-owned subsidiaries of the Company (the "Target Subsidiaries") with an aggregate investment amount of RMB2,000,000,000. In addition, Tianrui Group has also entered into a profit guarantee agreement with CCB to guarantee a minimum yearly return rate of the investment made by CCB.

As at 31 December 2018, the conditions to complete the capital injection into the Target Subsidiaries have not been fulfilled. Such conditions include, inter alias, the completion of the registration of the increase in the registered capital and change of shareholders' structure of the Target Subsidiaries, the completion of the registration of the pledge of certain mining rights as set out in the Agreements and certain shares of the Company or Shanshui Cement as securities, and the appointment of new directors and the approval of new articles of association of the Target Subsidiaries.

Pursuant to the Agreements, certain amounts of the capital fund injected by CCB are designated to use to settle certain existing borrowings of the Target subsidiaries.

As at 31 December 2018, the amount of RMB2,000,000,000 received from CCB was placed in a bank account of the Group which is restricted as to use before the completion of the capital injection.

36. LOAN FROM AN ASSOCIATE

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Loan from Tianrui Finance	**1,000,000**	—
Less: amounts due within one year	**(900,000)**	—
Amounts due after one year	**100,000**	—

The loan from Tianrui Finance is unsecured, bears interest at rates ranging from 3.92% to 4.75% per annum and repayable by instalment.

37. BORROWINGS

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Bank borrowings:		
Fixed-rate	**2,887,497**	3,500,083
Variable-rate	**1,046,186**	1,155,652
Other borrowings from non-banking financial institutions:		
Fixed-rate	**2,473,848**	1,149,373
	6,407,531	5,805,108
Bank borrowings relating to bills discounted with recourse *(Note)*	**758,941**	651,977
	7,166,472	6,457,085
Secured	**4,529,317**	4,693,883
Unsecured	**2,637,155**	1,763,202
	7,166,472	6,457,085

Note: The amounts included cash received on bills receivables discounted to various banks with full recourse of which RMB450,074,000 (2017: RMB601,776,000) relates to discounted bills issued among subsidiaries of the Group for intra-group transactions (Note 28). The discounted bills carry fixed interests ranging from 4.2% to 5.3% per annum (2017: 2.60% to 5.68% per annum). In addition, during the year, the Group discounted bills receivables with recourse in an aggregate amount of RMB398,532,000 (2017: RMB208,093,000) to banks for short term financing. As at 31 December 2018, the associated borrowings amounting to RMB308,867,000 (2017: RMB50,201,000). The relevant cash flows of these borrowings are presented as operating cash flows in the consolidated statement of cash flows as the management considers that the cash flows are, in substance, the receipts from trade customers.

37. BORROWINGS (Cont'd)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Year ended 31 December	
	2018	2017
Effective interest rate:		
Fixed-rate borrowings	**4.4% to 14.4%**	2.6% to 14.4%
Variable-rate borrowings	**4.8% to 6.9%**	4.4% to 5.7%

The Group's variable-rate borrowings carry interest at Hongkong InterBank Offered Rate ("HIBOR") (2017: HIBOR or London Interbank Offered Rate).

The borrowings are repayable as follows*:

	At 31 December	
	2018 RMB'000	2017 RMB'000
Within one year	**4,847,606**	5,382,423
More than one year, but not exceeding two years	**1,644,904**	552,580
More than two years, but not exceeding five years	**673,962**	91,260
More than five years	**—**	430,822
	7,166,472	6,457,085
Less: Amount due within one year shown under current liabilities	**(4,847,606)**	(5,382,423)
Amount due after one year	**2,318,866**	1,074,662

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

37. BORROWINGS (Cont'd)

The Group's borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
United State Dollars	**263,725**	275,652
Hong Kong Dollars	**1,011,180**	514,413
	1,274,905	790,065

Details of assets pledged to secure bank borrowings are set out in Note 45.

38. FINANCIAL GUARANTEE CONTRACTS

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Financial guarantee contracts	**18,643**	23,260

As at 31 December 2018, outstanding financial guarantees in respect of bank facilities provided by the Group to Tianrui Group, and three 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 Company Limited (天瑞旅遊集團股份有限公司) ("Tianrui Travel") and Tianrui Foundry Company Limited (天瑞集團鑄造有限公司) ("Tianrui Foundry"), amounting to RMB108,000,000 (2017: RMB108,000,000), Nil (2017: RMB522,000,000), RMB810,000,000 (2017: RMB810,000,000) and RMB270,000,000 (2017: RMB270,000,000), respectively, of which utilised and drawn down facilities amounted to RMB90,000,000 (2017: RMB90,000,000), Nil (2017: RMB82,000,000), RMB725,000,000 (2017: RMB780,000,000) and RMB230,000,000 (2017: RMB230,000,000), respectively. As at 31 December 2018, there were no undrawn guaranteed bank facilities. The above bank facilities cannot be reused upon repayments of the related loans.

38. FINANCIAL GUARANTEE CONTRACTS (Cont'd)

As at 31 December 2018, outstanding financial guarantees in respect of bank facilities included the financial guarantee provided by the Company to the immediate holding company of the Company, Yu Kuo Company Limited, on 22 October 2018, amounting to RMB87,770,000, of which utilised and drawn down facilities amounted to RMB87,770,000.

The total fair value of financial guarantee contracts at initial recognition of RMB760,000 (2017: RMB5,967,000) issued during the year ended 31 December 2018 was calculated using the guarantee fee rate estimated by reference to the probability of default of the debtors and considered as deemed distribution to the immediate holding company and debited to other reserves on the consolidated statement of changes in equity.

39. MID-TERM DEBENTURES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Mid-term debentures due within one year	—	2,369,828

The amounts as at 31 December 2017 included:

(i) enterprise private debentures with an aggregate principal amount of RMB500,000,000 issued on 9 January 2015 with maturity of three years and carrying fixed interest rate at 8.50% per annum; and

(ii) enterprise private debentures with an aggregate principal amount of RMB500,000,000, RMB900,000,000 and RMB600,000,000 issued on 25 August 2016, 20 September 2016 and 21 October 2016, respectively with maturity of two years, and all carrying fixed interest rate of 7.00% per annum.

40. LONG-TERM CORPORATE BONDS

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Long-term corporate bonds	**2,227,999**	3,070,820
Less: Amounts due within one year	**(106,056)**	(2,998,515)
Amounts due after one year	**2,121,943**	72,305

Notes:

(i) long-term corporate bonds in an aggregate principal amount of RMB2,000,000,000 issued on 6 February 2013 with a term of eight years and an interest rate of 7.21% per annum. According to the terms and conditions of the bonds, the Group has the option to 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 unredeemed bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. These bonds were issued through a lead underwriter, Hua Xi Securities Co., Ltd (華西證券有限責任公司) to non-specific buyers. These 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.

On 6 February 2018, the Group exercised its rights to adjust the interest to 8% per annum and no redemption was exercised by the bondholders and the maturity date of these bonds is 6 February 2021.

(ii) long-term corporate bonds in an aggregate principal amount of HK$86,500,000 (approximately RMB75,791,300) which including the issuance of first tranche of HK$45,540,000 issued on 2 December 2014, the second tranche of HK$33,460,000 issued on 15 July 2015 and the third tranche of HK$7,500,000 issued on 9 January 2016, with a term of eight years each and an interest rate of 6.50% per annum each. These 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.

(iii) long-term corporate bonds in an aggregate principal amount of RMB1,000,000,000 issued on 29 September 2015 through a lead underwriter, Ping An Securities Company Limited (平安證券有限責任公司), with a term of five years and an interest rate of 5.95% per annum. According to the terms and conditions of these bonds, the Group has an option to adjust the bonds rate for the fourth year and fifth year at the end of the third year by giving a notice to the bondholders. The bondholders 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.

On 29 September 2018, corporate bonds with an aggregate carrying amount of RMB788,648,000 have been redeemed and the maturity date of corporate bonds with an aggregate carrying amount of RMB106,056,000 has been modified to 29 September 2019. The maturity date of the remaining corporate bonds is 29 September 2020.

41. DEFERRED TAXATION

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

	Impairment of assets	Fair value adjustments arising from acquisition of subsidiaries	Tax losses	Withholding tax	Deferred income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *(note)*	RMB'000
At 1 January 2017	14,096	(57,900)	120,757	—	14,097	(3,575)	87,475
(Charged)/credited to profit or loss during the year	(1,007)	3,795	23,730	(121,234)	(703)	13,205	(82,214)
Acquisition of a subsidiary *(Note 52)*	—	(11,322)	—	—	—	—	(11,322)
At 31 December 2017	13,089	(65,427)	144,487	(121,234)	13,394	9,630	(6,061)
Effect arising from initial application of IFRS 9 *(Note 3)*	6,400	—	—	—	—	—	6,400
At 1 January 2018 (restated)	19,489	(65,427)	144,487	(121,234)	13,394	9,630	339
Credited/(charged) to profit or loss during the year	7,513	2,763	(32,538)	—	(2,718)	12,475	(12,505)
At 31 December 2018	27,002	(62,664)	111,949	(121,234)	10,676	22,105	(12,166)

Note:

Others mainly represented deferred tax assets arising from unrealised profits on intra-group transactions, provision for environmental restoration in respect of asset-related government grants.

41. DEFERRED TAXATION (Cont'd)

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:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets	**171,090**	189,285
Deferred tax liabilities	**(183,256)**	(195,346)
	(12,166)	(6,061)

At 31 December 2018, the Group had unused tax losses of approximately RMB1,025,737,000 (2017: RMB1,260,324,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB447,798,000 (2017: RMB577,948,000) of such losses.

No deferred tax asset has been recognised in respect of the remaining tax losses of RMB577,939,000 (31 December 2017: RMB682,376,000) due to the unpredictability of future profit streams in respective subsidiaries. The unrecognised tax losses will be expired as follows:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Year		
2018	—	185,158
2019	**109,078**	109,078
2020	**134,164**	136,485
2021	**139,342**	139,342
2022	**112,313**	112,313
2023	**83,042**	—
	577,939	682,376

In addition, the Group had deductible temporary differences of RMB77,983,000 (2017: RMB71,648,000) as at 31 December 2018. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

41. DEFERRED TAXATION (Cont'd)

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 profits of the PRC subsidiaries amounting to RMB8,038,709,000 as at 31 December 2018 (2017: RMB6,360,049,000) 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 be reversed in the foreseeable future.

42. DEFERRED INCOME

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Assets-related government grants	**157,548**	166,132

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 RMB8,584,000 was released to "other income" during the year ended 31 December 2018 (2017: RMB8,585,000).

43. PROVISION FOR ENVIRONMENTAL RESTORATION

	RMB'000
At 1 January 2017	21,840
Provision for the year	1,690
Utilisation of provision	(4,537)
At 31 December 2017	18,993
Provision for the year	2,550
Utilisation of provision	(231)
At 31 December 2018	21,312

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 Group's limestone mines. During the year, additional provision of RMB2,550,000 (2017: RMB1,690,000) is recognised.

44. SHARE CAPITAL

The Company

	Number of shares	Share capital	
		HK$'000	RMB'000
Authorised shares			
Ordinary share of HK$0.01 each:			
As at 1 January 2017, 31 December 2017 and 2018	10,000,000,000	100,000	81,070
Issued shares			
As at 1 January 2017	2,400,900,000	24,009	19,505
Issue of new ordinary shares *(note)*	537,381,647	5,374	4,678
As at 31 December 2017 and 2018	2,938,281,647	29,383	24,183

Note:

On 7 June 2017, the Company issued 537,381,467 shares of HK$0.01 par value each at the price of HK$2.28 each to acquire 100% and 55% equity interests in Yongan Cement and Xindeng Cement respectively, resulting in credit to ordinary share capital of the Company of RMB4,678,000 and share premium of RMB1,062,008,000. The new shares rank pari passu with the existing shares. Refer to Note 52 for details.

45. 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:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	**2,736,126**	3,058,556
Prepaid lease payments	**504,988**	498,830
Mining rights	**58,772**	2,096
Pledged bank balances	**579,886**	584,204
	3,879,772	4,143,686

45. PLEDGE OF ASSETS (Cont'd)

In addition, as at 31 December 2018, pledged bank balances amounting to RMB2,721,588,000 (2017: RMB2,748,602,000) were pledged to banks for issuing trade facilities such as bills payables and bankers' guarantee, and deposits amounting to RMB87,147,000 (2017: RMB67,627,000) were pledged to bank for restoration of limestone mines.

Apart from the assets pledged set out above, Tianrui Cement has pledged all of its equity interests in Dalian Tianrui Group Cement Company Limited (大連天瑞水泥有限公司), Tianrui Group Zhoukou Cement Company Limited (天瑞集團周口水泥有限公司), Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州水泥有限公司), Weihui Tianrui Group Cement Company Limited (衛輝市天瑞水泥有限公司), Shangqiu Tianrui Cement Company Limited (商丘天瑞水泥有限公司), Tianrui Group Xuchcang Cement Company Limited (天瑞集團許昌水泥有限公司), Zhengzhou Tianrui Cement Company Limited (鄭州天瑞水泥有限公司) and Tianrui Group Yuzhou Cement Company Limited (天瑞集團禹州水泥有限公司), subsidiaries of Tianrui Cement, to secure the short-term variable-rate loans amounting to RMB340,000,000 (2017: RMB390,000,000), and pledged all of its equity interests in Yingkou Tianrui Group Cement Company Limited (營口天瑞水泥有限公司), a subsidiary of Tianrui Cement, to secure the long-term variable-rate loans amounting to RMB195,436,000 as at 31 December 2018 (31 December 2017: RMB30,000,000).

In addition, bills receivables (including those issued among subsidiaries of the Group for intra-group transactions) amounting to RMB788,312,000 as at 31 December 2018 (31 December 2017: RMB685,697,000) were discounted to banks to obtain borrowings. Bills receivables (including those issued among subsidiaries of the Group for intra-group transactions) with carrying amounts of RMB5,018,639,000 as at 31 December 2018 (31 December 2017: RMB3,438,766,000) were endorsed to suppliers on a full recourse basis. Details are set out in Notes 27, 28 and 37.

46. CAPITAL COMMITMENTS

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Capital expenditure of the Group in respect of acquisition of property, plant and equipment — contracted for but not provided for in the consolidated financial statements	**399,278**	470,690

47. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The rental payment for the year ended 31 December 2018 amounted to approximately RMB20,403,000 (2017: RMB14,945,000) are paid for certain of its land and office properties.

As at 31 December 2018, the Group had commitments for future minimum lease payments in respect of rented lands and office properties which fall due as follows:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	**15,650**	1,883
In the second to fifth year inclusive	**39,049**	2,748
After five years	**229**	5,031
	54,928	9,662

Operating lease payments represent rentals payable by the Group for certain of its land and office premises. Leases are negotiated for terms of between 1 to 27 years and rental are fixed throughout the lease term.

The Group as lessor

The rental income earned for the year ended 31 December 2018 amounting to approximately RMB3,580,000 (2017: RMB2,615,000) was generated from rentals of certain of plant and machinery.

As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease receivables:

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	**2,225**	2,099
In the second to fifth year inclusive	**8,158**	8,134
After five years	**833**	833
	11,216	11,066

48. 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 costs charged to profit or loss for the year ended 31 December 2018 amounting to RMB41,288,000 (2017: RMB38,106,000).

49. RELATED PARTY DISCLOSURES

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year:

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Purchase of goods from an associate	**298,003**	298,744
Purchase of goods from a subsidiary of Tianrui Group	**5,463**	3,665
Office rental expenses to Tianrui Group	**1,800**	1,800
Loss from disposal of property, plant and equipment to subsidiaries of Tianrui Group	**(3,587)**	—
Sales of goods to an associate	**—**	4,901
Sales of goods to a subsidiary of Tianrui Group	**—**	230

The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

In addition, the Group provided financial guarantee to banks in respect of bank facilities of Tianrui Foundry, Tianrui Coking, Tianrui Travel and Tianrui Group, and the immediate holding company, Yu Kuo Company Limited. Details of the above guarantees are disclosed in Note 38.

49. RELATED PARTY DISCLOSURES (Cont'd)

Remuneration to key management personnel

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 of the Company and top management. The key management personnel compensations are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and other allowances	**4,132**	3,940
Retirement benefit schemes contributions	**40**	46
	4,172	3,986

Guarantees provided by related parties

As at 31 December 2018, bank borrowings amounting to RMB220,000,000 (2017: RMB321,724,000) and other borrowings RMB83,239,000 (2017: RMB74,960,000) were guaranteed by Tianrui Group, Mr. Li Liufa and his spouse. Bank borrowings amounting to RMB30,000,000 (2017: RMB284,000,000) were guaranteed by Tianrui Group. In addition, as at 31 December 2018, other borrowings amounting to RMB1,000,000,000 (2017: Nil) were guaranteed by Mr. Li Liufa and his spouse, and other borrowings amounting to RMB100,000,000 (2017: Nil) were guaranteed by Tianrui Group, Tianrui Foundry, Tianrui Travel, Mr. Li Liufa and his spouse.

50. 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 maximising the return to shareholders through the optimisation of the debts and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debts, which includes borrowings, mid-term debentures, long-term corporate bonds, loan from an associate and equity attributable to owners of the Company, comprising share capital, share premium, and other reserves.

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 debts.

51. FINANCIAL INSTRUMENTS

51.1 Categories of financial instruments

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Financial assets:		
Financial assets at amortised cost	**10,432,992**	—
Loans and receivables (including restricted and pledged bank balances and cash and bank balances)	**—**	8,529,398
Financial assets at FVTPL	**43,702**	—
Derivative financial instruments	**7,588**	—
Financial liabilities:		
Amortised cost	**15,914,435**	14,772,464
Financial guarantee contracts	**18,643**	23,260

51.2 Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and bills receivables, deposits and other receivables, restricted and pledged bank balances, cash and bank balances, amounts due from associates and the ultimate holding company, derivative financial instruments, financial assets at FVTPL, trade and other payables, mid-term debentures, borrowings, loan from an associate, other financial liability 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, currency risk and other price 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.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings, mid-term debentures and long-term corporate bonds. Besides, the Group is also exposed to cash flow interest rate risk in relation to restricted and pledged bank balances, bank balances and variable-rate borrowings.

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 HIBOR.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Market risk (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 of the Company 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 (2017: 25 basis points) increase or decrease in HIBOR and the 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 (2017: 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 RMB1,846,000 (2017: RMB2,161,000) and the amount of borrowing costs capitalised in respect of the Group's qualifying assets would be increased/decreased by approximately RMB154,000 for the year ended 31 December 2018 (2017: RMB8,000).

Currency risk

The Group has certain pledged bank balances and other receivables and borrowings denominated in HK$ or US$, hence exposures to exchange rate fluctuation arises. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management monitors the HK$, which is pegged with US$ and US$ exposure closely and will consider hedging significant currency exposure should the need arise.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk (Cont'd)

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

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Assets:		
HK$ denominated bank balances and other receivables	**3,040**	90,885
US$ denominated bank balances	**—**	64
	3,040	90,949
Liabilities:		
HK$ denominated borrowings, debentures and corporate bonds	**1,086,971**	657,435
US$ denominated borrowings	**263,725**	275,652
	1,350,696	933,087

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Market risk (Cont'd)

Currency risk (Cont'd)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against HK$ and US$. The following table details the Group's sensitivity to a 5% (2017: 5%) increase or decrease in RMB against HK$ and US$. The percentage represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjust their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% (2017: 5%) against HK$ and US$. For a 5% (2017: 5%) weakening of RMB against HK$ and US$, there would be an equal and opposite impact on the profit and the balances below would be negative.

	2018 **RMB'000**	2017 RMB'000
Post-tax profit for the year	**67,383**	42,107

Other price risk

The Group is exposed to price risk through its derivative financial instruments and financial assets at FVTPL. The Group monitors the price risk and will consider hedging the risk exposure should the need arise.

No sensitivity analysis has been presented as the directors of the Company consider that the impact on profit or loss for the current year is not significant.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment

As at 31 December 2018, 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 as disclosed in Note 55.

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. For trade receivables, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. For other receivables, the Group reviews the recoverable amount of each individual balance at the end of the reporting period to ensure that adequate impairment losses are made. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For the amounts due from associates, the Group has significant influence over its associates and their financial positions are regularly monitored in order to minimise the credit risk associated with receivables due from associates.

In order to minimise 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 of the Company consider that the Group's credit risk is significantly reduced.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

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

The Group does not have any significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

The tables below detail the credit risk exposures of the Group's financial assets and financial guarantee contracts, which are subject to ECL assessment:

	Internal credit rating	12-month or lifetime ECL	Gross carrying amount as at 31 December 2018	
			RMB'000	RMB'000
Financial assets at amortised cost				
Trade receivables *(Note 27) (Note (a))*	Low risk	Lifetime ECL — Not credit-impaired	**262,493**	
	Doubtful	Lifetime ECL — Not credit-impaired	**14,508**	
	Loss	Lifetime ECL — Credit-impaired	**29,717**	**306,718**
Amounts due from an associate *(Note 29)*	Low risk	12-month ECL		**644,911**
Restricted bank balances *(Note 35)*	Low risk	12-month ECL		**2,000,000**
Pledged bank balances *(Note 31)*	Low risk	12-month ECL		**3,301,474**
Bank balances *(Note 32)*	Low risk	12-month ECL		**710,669**
Other receivables *(Note 27)*	Low risk	12-month ECL	**381,689**	
	Doubtful	Lifetime ECL — Not credit-impaired	**11,167**	
	Loss	Lifetime ECL — Credit-impaired	**32,713**	**425,569**
Bills receivables *(Note 27)*	Low risk	12-month ECL		**890,674**
Bills endorsed to suppliers *(Note 27)*	Low risk	12-month ECL		**2,239,954**
Other items				
Financial guarantee contracts *(Note 55) (Note (b))*	Low risk	12-month ECL		**1,275,770**

Notes:

(a) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL.

(b) For financial guarantee contracts, the gross carrying amount represents the maximum amount that Group has guaranteed under the relevant contracts.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

The exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL. The Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customer' abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rates estimated are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	**Lifetime ECL (credit-impaired)** RMB'000	**Total** RMB'000
As at 31 December 2017 under IAS 39	—	30,480	30,480
Adjustment upon application of IFRS 9	12,133	—	12,133
As at 1 January 2018 — As restated	12,133	30,480	42,613
Impairment losses recognised	2,375	—	2,375
Impairment losses reversed	—	(763)	(763)
As at 31 December 2018	14,508	29,717	44,225

During the year ended 31 December 2018, the Group provided RMB1,612,000 impairment allowance, net, for trade receivables, of which RMB2,375,000 was made based on the provision matrix.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Credit risk and impairment assessment (Cont'd)

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

	12 m ECL	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017 under IAS 39	—	—	26,910	26,910
Adjustment upon application of IFRS 9	—	—	12,556	12,556
As at 1 January 2018 (as restated)	—	—	39,466	39,466
Impairment losses recognised	11,167	—	—	11,167
Impairment losses reversed	—	—	(6,753)	(6,753)
Transfer to lifetime ECL (not credit-impaired)	(11,167)	11,167	—	—
As at 31 December 2018	—	11,167	32,713	43,880

During the year ended 31 December 2018, the Group provided RMB4,414,000 impairment allowance (net of reversal) for other receivables which was made on debtors based on the individual assessment.

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the relevant contract was RMB1,275,770,000 as at 31 December 2018 and a provision of RMB18,643,000 has been recognised. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Details of the financial guarantee contracts are set out in Note 38.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

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 will be taken promptly as appropriate to ensure sufficient liquidity is available if the lenders demand immediate repayment.

The Group had net current liabilities as at 31 December 2018, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the directors of the Company regularly monitor the operating cash flows of the Group to meet its liquidity requirement in the short and long term. See Note 2 for details.

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

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.2 Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

	Weighted average interest rate %	On demand or 0–30 days RMB'000	31 to 180 days RMB'000	181 to 365 days RMB'000	1–2 years RMB'000	2–3 years RMB'000	Over 3 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
As at 31 December 2018									
Trade and other payables	—	450,907	2,051,327	1,017,730	—	—	—	3,519,964	3,519,964
Other financial liability	—	2,000,000	—	—	—	—	—	2,000,000	2,000,000
Loan from an associate	4.19	3,490	265,702	672,506	102,094	—	—	1,043,792	1,000,000
Borrowings	6.97	1,162,392	2,174,717	1,784,981	1,811,654	248,243	554,846	7,736,833	7,166,472
Long-term corporate bonds	7.67	—	2,297,616	324,771	6,572	8,543	105,239	2,742,741	2,227,999
		3,616,789	6,789,362	3,799,988	1,920,320	256,786	660,085	17,043,330	15,914,435
Financial guarantee liabilities		1,275,770	—	—	—	—	—	1,275,770	18,643
As at 31 December 2017									
Trade and other payables	—	667,732	1,177,003	1,029,996	—	—	—	2,874,731	2,874,731
Borrowings	5.73	1,266,609	2,141,218	2,128,826	659,150	128,154	495,396	6,819,353	6,457,085
Mid-term debentures	7.31	500,932	—	2,234,641	—	—	—	2,735,573	2,369,828
Long-term corporate bonds	6.71	—	2,439,616	1,028,650	—	8,150	—	3,476,416	3,070,820
		2,435,273	5,757,837	6,422,113	659,150	136,304	495,396	15,906,673	14,772,464
Financial guarantee liabilities		1,710,000	—	—	—	—	—	1,710,000	23,260

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.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.3 Fair value measurements

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

Certain of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how their fair values 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 categorised (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)**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
	31 December 2018	31 December 2017				
Option granted by Tianrui Group *(see Note 26)*	**Assets 7,588**	N/A	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)
PRC investment funds *(see Note 30)*	**Assets 43,702**	—	Level 2	Market price or fair value of underlying investments	N/A	N/A

Note:

(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 RMB7,451,000 for the year ended 31 December 2018. A 5% decrease in the stock price volatility rate, holding all other variables constant, would decrease the carrying amount of the option by RMB4,526,000 for the year ended 31 December 2018.

51. FINANCIAL INSTRUMENTS (Cont'd)

51.3 Fair value measurements (Cont'd)

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

There is no transfer between level 1 and level 2 during the current and prior years.

Reconciliation of Level 3 fair value measurements

As detailed in Note 26, the options granted by Tianrui Group are classified as derivative financial assets. The options were measured at fair value on Level 3 fair value measurement.

The following are reconciliation of the options:

	RMB'000
FAIR VALUE:	
At 1 January 2017	761,065
Net increase in fair value recognised in profit or loss	451,279
Reclassified to amount due from the ultimate holding company *(Note 26)*	(1,212,344)
At 31 December 2017	—
Effect arising from initial application of IFRS 9 *(Note 3)*	2,726
At 1 January 2018	2,726
Changes in fair value recognised in profit or loss	4,862
At 31 December 2018	7,588

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

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

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

52. ACQUISITION OF SUBSIDIARIES IN YEAR 2017

On 7 June 2017, the Group acquired the entire equity interest of Yongan Cement and 55% equity interests of Xindeng Cement from Tianrui Group for a total consideration amounting to RMB1,066,686,000 by issuing ordinary shares of the Company of 537,381,647 shares. The acquisitions have been accounted for using the acquisition method.

	Yongan Cement RMB'000	Xindeng Cement RMB'000	Total RMB'000
Consideration transferred:			
Total consideration paid	709,374	357,312	1,066,686
Assets acquired and liabilities recognised at the date of acquisition are as follows:			
Property, plant and equipment	513,326	361,773	875,099
Prepaid lease payments	27,799	63,432	91,231
Mining rights	35,210	10,070	45,280
Inventories	38,270	31,993	70,263
Trade and other receivables	38,985	154,451	193,436
Cash and bank balances	34,106	37,917	72,023
Trade and other payables	(99,183)	(105,406)	(204,589)
Current tax liabilities	(2,528)	(6,719)	(9,247)
Deferred tax liabilities	(2,904)	(8,418)	(11,322)
	583,081	539,093	1,122,174
Goodwill arising on acquisition:			
Consideration transferred *(Note 44)*	709,374	357,312	1,066,686
Non-controlling interests (45% in Xindeng Cement)	—	242,592	242,592
Less: net assets acquired	(583,081)	(539,093)	(1,122,174)
Goodwill	126,293	60,811	187,104
Net cash inflow on acquisition:			
Cash and cash equivalents acquired	34,106	37,917	72,023

The aggregate fair value of trade and other receivables at the date of acquisition amounted to RMB193,436,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB193,436,000 at the date of acquisition.

52. ACQUISITION OF SUBSIDIARIES IN YEAR 2017 (Cont'd)

The non-controlling interests of Xindeng Cement in the acquisition date was measured at the proportionate share of net assets acquired. Goodwill arose in these acquisitions because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of these companies. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

During the year ended 31 December 2017, included in the consolidated revenue and profit for the year was revenue of RMB517.29 million and profit of RMB101.13 million attributable to the additional business generated by the acquired entities. Had the acquisition been completed on 1 January 2017, the Group's total revenue for the prior year would have been RMB8,788 million, and profit for the prior year would have been RMB1,165 million.

53. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details major changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Mid-term debentures	Long-term corporate bonds	Obligations under finance leases	Interest payables	Loan from an associate	Other financial liability	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	6,449,717	2,775,183	3,075,350	28,861	252,440	—	—	12,581,551
Financing cash flows	106,092	(420,000)	—	(28,861)	(1,007,003)	—	—	(1,349,772)
Interest expenses	—	14,645	540	—	990,401	—	—	1,005,586
Decrease in discounted bills with recourse presented under operating cash flows	(45,370)	—	—	—	—	—	—	(45,370)
Others	(53,354)	—	(5,070)	—	—	—	—	(58,424)
At 31 December 2017	**6,457,085**	**2,369,828**	**3,070,820**	**—**	**235,838**	**—**	**—**	**12,133,571**
Financing cash flows	**(312,889)**	**(2,477,957)**	**(1,141,384)**	**—**	**(235,838)**	**974,578**	**2,000,000**	**(1,193,490)**
Interest expenses	**693,378**	**108,129**	**295,077**	**—**	**—**	**25,422**	**—**	**1,122,006**
Increase in discounted bills with recourse presented under operating cash flows	**258,666**	**—**	**—**	**—**	**—**	**—**	**—**	**258,666**
Others	**70,232**	**—**	**3,486**	**—**	**—**	**—**	**—**	**73,718**
At 31 December 2018	**7,166,472**	**—**	**2,227,999**	**—**	**—**	**1,000,000**	**2,000,000**	**12,394,471**

54. MAJOR NON-CASH TRANSACTIONS

During the year, short term borrowings drawn on discounted bills with recourse of RMB398,532,000 (2017: RMB208,093,000) have been settled through bills receivables discounted to the relevant financial institutions.

During the year, trade payables with carrying amount of RMB2,122,196,000 (2017: RMB1,954,972,000) have been settled by bills receivables endorsed to suppliers on a full recourse basis.

55. CONTINGENT LIABILITIES

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Guarantees given to banks in respect of banking facilities granted to related parties *(Note 38)*	**1,275,770**	1,710,000

The management considers the risk of the contingent liabilities and recognised financial guarantee liabilities of RMB18,643,000 (2017: RMB23,260,000) in the consolidated financial statements.

56. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

General information of subsidiaries

Details of the principal subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of company	Place of incorporation/ establishment and operations	Issued and fully paid share capital/registered capital	Proportion of ownership interest and voting power		Principal activities
			2018	2017	
			%	%	
Subsidiaries					
China Tianrui (Hong Kong) Company Limited 中國天瑞(香港)有限公司	Hong Kong	US$1	**100**	100	Investment holding
Tianrui Cement Group Company Limited 天瑞水泥集團有限公司	The PRC	US$594,052,471	**100**	100	Manufacture and sale of cement and clinker
Tianrui Group Ruzhou Cement Company Limited 天瑞集團汝州水泥有限公司*	The PRC	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	RMB240,000,000	**100**	100	Manufacture and sale of cement, clinker and limestone aggregate

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

General information of subsidiaries (Cont'd)

Name of company	Place of incorporation/ establishment and operations	Issued and fully paid share capital/registered capital	Proportion of ownership interest and voting power 2018 %	2017 %	Principal activities
Tianrui Group Zhoukou Cement Company Limited 天瑞集團周口水泥有限公司*	The PRC	RMB81,000,000	**100**	100	Manufacture and sale of cement
Tianrui Group Yuzhou Cement Company Limited 天瑞集團禹州水泥有限公司*	The PRC	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	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	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	RMB200,000,000	**100**	100	Manufacture and sale of cement and clinker
Liaoyang Tianrui Cement Company Limited 遼陽天瑞水泥有限公司*	The PRC	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	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	RMB280,000,000	**100**	100	Manufacture and sale of cement, clinker and limestone aggregate
Tianrui Group Zhengzhou Cement Company Limited 天瑞集團鄭州水泥有限公司*	The PRC	RMB520,000,000	**100**	100	Manufacture and sale of cement, clinker and limestone aggregate
Tianrui Group Xiaoxian Cement Company Limited 天瑞集團蕭縣水泥有限公司*	The PRC	RMB241,958,000	**100**	100	Manufacture and sale of cement and clinker
Tianjin Tianrui Cement Company Limited ("Tianjin Tianrui Cement") 天津天瑞水泥有限公司*	The PRC	RMB100,000,000	**60**	60	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	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	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	RMB205,000,000	**100**	100	Manufacture and sale of cement and clinker
Dalian Tianrui Jinhaian Cement Company Limited 大連天瑞金海岸水泥有限公司*	The PRC	RMB45,000,000	**100**	100	Manufacture and sale of cement
Haicheng The First Cement Company Limited 海城市第一水泥有限公司*	The PRC	RMB100,000,000	**100**	100	Manufacture and sale of cement and clinker
Yongan Cement 河南永安水泥有限公司*	The PRC	RMB572,600,000	**100**	100	Manufacture and sale of cement
Xindeng Cement 天瑞新登鄭州水泥有限公司*	The PRC	RMB294,667,600	**55**	55	Manufacture and sale of cement and limestone aggregate

* The entities are subsidiaries of Tianrui Cement and indirectly held by the Company.

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

General information of subsidiaries (Cont'd)

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

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 establishment and operations	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2018	31/12/2017	**2018 RMB'000**	2017 RMB'000	**31/12/2018 RMB'000**	31/12/2017 RMB'000
Tianjin Tianrui Cement	The PRC	**40%**	40%	**(1,889)**	(27,630)	**(176,731)**	(174,842)
Xindeng Cement	The PRC	**45%**	45%	**59,329**	22,247	**232,030**	264,839
Individually immaterial subsidiaries with non-controlling interests						**6,147**	24,919
						61,446	114,916

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

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

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

Tianjin Tianrui Cement

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets	**43,022**	46,261
Non-current assets	**296,961**	318,013
Current liabilities	**(778,710)**	(797,896)
Non-current liabilities	**(3,102)**	(3,483)
Net liabilities	**(441,829)**	(437,105)
Equity attributable to owners of the Company	**(265,098)**	(262,263)
Non-controlling interests of Tianjin Tianrui Cement	**(176,731)**	(174,842)
	(441,829)	(437,105)

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**155,626**	135,735
Expenses	**(160,350)**	(204,810)
Loss and total comprehensive expense for the year	**(4,724)**	(69,075)
Loss and total comprehensive expense attributable to:		
Owners of the Company	**(2,835)**	(41,445)
Non-controlling interests of Tianjin Tianrui Cement	**(1,889)**	(27,630)
	(4,724)	(69,075)
Net cash from operating activities	**448**	11,573
Net cash (used in)/from investing activities	**(2,427)**	4,340
Net cash used in financing activities	**—**	(16,215)
Net cash outflow	**(1,979)**	(302)

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

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

Xindeng Cement

	At 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets	**244,144**	274,893
Non-current assets	**426,136**	419,169
Current liabilities	**(146,601)**	(97,646)
Non-current liabilities	**(8,057)**	(7,886)
Net assets	**515,622**	588,530
Equity attributable to owners of the Company	**283,592**	323,691
Non-controlling interests of Xindeng Cement	**232,030**	264,839
	515,622	588,530

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

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

Xindeng Cement (Cont'd)

	Year ended 31 December 2018 RMB'000	From date of acquisition to 31 December 2017 RMB'000
Revenue	**496,728**	274,880
Expenses	**(364,886)**	(225,443)
Profit and total comprehensive income for the year/period	**131,842**	49,437
Profit and total comprehensive income attributable to:		
Owners of the Company	**72,513**	27,190
Non-controlling interests of Xindeng Cement	**59,329**	22,247
	131,842	49,437
Dividend declared attributable to non-controlling interests	**92,138**	—
Net cash from operating activities	**269,871**	184,375
Net cash used in investing activities	**(42,440)**	(21,687)
Net cash used in financing activities	**(204,750)**	(155,756)
Net cash inflow	**22,681**	6,932

57. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	At 31 December	
	2018	2017
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**1,925,778**	1,925,778
Amounts due from subsidiaries	**833,666**	—
Equipment	**28**	39
Derivative financial assets	**7,588**	—
	2,767,060	1,925,817
CURRENT ASSETS		
Other receivables	**213,134**	1,064
Amounts due from subsidiaries	**1,211,921**	708,186
Amount due from the ultimate holding company	**—**	1,212,344
Cash and bank balances	**1,994**	7,230
	1,427,049	1,928,824
CURRENT LIABILITIES		
Borrowings due within one year	**365,376**	359,242
Other payables	**11,646**	420
	377,022	359,662
NET CURRENT ASSETS	**1,050,027**	1,569,162
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,817,087**	3,494,979
CAPITAL AND RESERVES		
Share capital	**24,183**	24,183
Reserves	**2,685,780**	2,846,434
TOTAL EQUITY	**2,709,963**	2,870,617
NON-CURRENT LIABILITIES		
Borrowings due after one year	**909,529**	430,823
Long-term corporate bonds	**75,791**	72,305
Deferred tax liabilities	**121,044**	121,234
Financial guarantee liability	**760**	—
	1,107,124	624,362
	3,817,087	3,494,979

57. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Cont'd)

Movements in reserves of the Company

	Share premium RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2017	4,640	229,240	1,155,440	1,389,320
Profit and total comprehensive income for the year	—	—	395,106	395,106
Issue of new shares *(Note 44)*	1,062,008	—	—	1,062,008
At 31 December 2017	1,066,648	229,240	1,550,546	2,846,434
Adjustments — impact from the application of IFRS 9 *(Note 3)*	—	—	2,726	2,726
At 1 January 2018 (restated)	**1,066,648**	**229,240**	**1,553,272**	**2,849,160**
Loss and total comprehensive expense for the year	**—**	**—**	**(162,620)**	**(162,620)**
Financial guarantee provided by the Company to related parties	**—**	**(760)**	**—**	**(760)**
At 31 December 2018	**1,066,648**	**228,480**	**1,390,652**	**2,685,780**

Financial Summary

Financial summary — in accordance with International Financial Reporting Standards.

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**10,060,647**	8,420,551	6,008,605	6,195,093	8,950,286
Profit before tax	**1,742,572**	1,354,025	351,635	312,526	752,753
Income tax expense	**(490,762)**	(361,255)	(102,065)	(29,021)	(212,635)
Profit for the year	**1,251,810**	992,770	249,570	283,505	540,118
Attributable to:					
Owners of the Company	**1,212,547**	1,001,764	295,812	313,079	564,938
Non-controlling interests	**39,263**	(8,994)	(46,242)	(29,574)	(24,820)
	1,251,810	992,770	249,570	283,505	540,118

CONSOLIDATED FINANCIAL POSITION

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**28,553,706**	25,904,081	24,116,401	27,090,642	24,663,875
Total liabilities	**(17,474,586)**	(15,968,310)	(16,476,711)	(19,672,581)	(17,250,563)
Total equity	**11,079,120**	9,935,771	7,639,690	7,418,061	7,413,312
Attributable to:					
Owners of the Company	**11,017,674**	9,820,855	7,758,372	7,470,283	7,435,960
Non-controlling interests	**61,446**	114,916	(118,682)	(52,222)	(22,648)
	11,079,120	9,935,771	7,639,690	7,418,061	7,413,312